BAWAG Group AG

(incorporated as a stock corporation under the laws of Austria, registered number FN 269842 b)
Offering of up to 40,250,000 Offer Shares
Price Range: € 47.00 to € 52.00
per Offer Share

This prospectus (the "**Prospectus**") relates to the offering of up to 40,250,000 no par value ordinary bearer shares in BAWAG Group AG, a stock corporation organized under Austrian law (the "**Company**" and, together with its consolidated subsidiaries, "**BAWAG Group**"), each such share with a notional value of € 1.00 in the share capital and with dividend rights as from January 1, 2017 (excluding, however, an interim dividend of € 51.6 million distributed prior to the date of this Prospectus) (the "**Offer Shares**"). The Offer Shares comprise up to 35,000,000 shares (the "**Firm Shares**") from the holdings of Promontoria Holding 212 B.V., Promontoria Holding 213 B.V., Promontoria Holding 214 B.V., Promontoria Holding 215 B.V. and Promontoria Holding 216 B.V. (together the "**Cerberus Shareholders**") owned and controlled by several funds and accounts under management by Cerberus Capital Management LP and its affiliates ("**Cerberus**"), GoldenTree HoldCo Lux 1 S.à r.l., GoldenTree HoldCo Lux 2 S.à r.l., GoldenTree HoldCo Lux 3 S.à r.l., GoldenTree Asset Management Dutch BV, GN3 SIP LP and Stichting PGGM Depositary (together the "**GoldenTree Shareholders**") which are owned and controlled by several funds and accounts under management by, or whose holdings in the Company are subject to an investment management agreement with, GoldenTree Asset Management LP and its affiliates ("**GoldenTree**"), Promontoria Sacher Holding, B.V. ("**PSH**") and certain minority shareholders (together with the Cerberus Shareholders, the GoldenTree Shareholders and PSH, the "**Selling Shareholders**") and up to 5,250,000 shares (the "**Over-Allotment Shares**") from the holdings of the Selling Shareholders (other than PSH and certain minority shareholders) to cover a potential Over-Allotment (as defined below). Goldman Sachs International may exercise this Over-Allotment (as defined below) option on behalf of the Underwriters (as defined below) on one or more occasions during the period beginning on the date of commencement of trading in the shares of the Company on the Vienna Stock Exchange and ending no later than 30 calendar days thereafter.

The Offer Shares will be offered in an international offering (the "**Offering**"), which consists of (i) a public offering to retail and institutional investors in the Republic of Austria ("**Austria**") and (ii) a private placement outside Austria to selected institutional investors, including a private placement within the United States of America (the "**United States**" or "**U.S.**") to qualified institutional buyers ("**QIBs**") in reliance on Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and outside of the United States to certain other eligible institutional investors in reliance on Regulation S ("**Regulation S**") under the Securities Act.

The Offer Period during which institutional investors may offer to purchase Offer Shares in the Offering begins on October 12, 2017 and is expected to end on October 24, 2017 (the "**Offer Period**"). Retail investors may submit their orders only until (and including) October 23, 2017. The Offer Period may be shortened, extended or terminated at the absolute discretion of the Selling Shareholders and the Joint Global Coordinators and Joint Bookrunners (as defined below) at any time. The price range within which purchase offers for the Firm Shares may be submitted has been set at € 47.00 to € 52.00 per share (the "**Price Range**"). Prior to this offering, no public market for the shares exists. The offer price will be set on or about October 24, 2017. The Company will apply for admission of all of its shares (the "**Existing Shares**") to trading on the official market of the Vienna Stock Exchange (the "**Official Market**"). Trading of the Shares on the Official Market is expected to commence on or about October 25, 2017.

The Offering and the Offer Shares have not been and will not be registered under the securities laws of any jurisdiction other than Austria, and, in particular, have not been and will not be registered under the Securities Act. The Offer Shares will be offered or sold in the United States only to QIBs in reliance on Rule 144A or in reliance on another available exemption from, or in transactions not subject to, the registration requirements of the Securities Act and outside the United States in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Offer Shares are transferable only in accordance with the restrictions described under "*Transfer and Selling Restrictions*".

Investing in the Offer Shares involves risks. Prospective investors should read the entire document and, in particular, "*3 Risk Factors*" beginning on page 85 of this Prospectus.

The Offer Shares will be represented by one or more global certificates, which will be deposited with OeKB CSD GmbH ("**OeKB CSD**"). The Offer Shares will be credited on or about October 30, 2017, to the accounts of investors in book-entry form through the facilities of OeKB CSD, Euroclear S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream**") in each case against payment of the final offer price (the "**Final Offer Price**"). The ISIN of the Existing Shares is AT0000BAWAG2.

This Prospectus has been prepared in accordance with Annexes I, III, XXII and XXX of Commission Regulation (EC) No. 809/2004 of April 29, 2004, as amended, the Austrian Capital Markets Act (*Kapitalmarktgesetz*; the "**Capital Markets Act**"), and the Austrian Stock Exchange Act (*Börsegesetz*; the "**Stock Exchange Act**") and has been approved by the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*; the "**FMA**") in its capacity as competent authority under the Capital Markets Act. The accuracy of the information contained in this Prospectus does not fall within the scope of examination by the FMA under applicable Austrian law. The FMA examines this Prospectus only in respect of its completeness, coherence and comprehensibility pursuant to Section 8a of the Capital Markets Act.

Joint Global Coordinators and Joint Bookrunners

Citigroup **Credit Suisse** **Goldman Sachs International** **J.P. Morgan** **Morgan Stanley & Co. International plc**

Joint Bookrunners

BofA Merrill Lynch **Barclays** **UBS Investment Bank**

Co-Lead Managers

COMMERZBANK **Raiffeisen Centrobank**

The date of this Prospectus is October 11, 2017

IMPORTANT INFORMATION ABOUT THE OFFERING

This document comprises this Prospectus dated October 11, 2017, for the purposes of the public offering of the Offer Shares to investors in Austria, private placements of the Offer Shares internationally and the listing of the Existing Shares on the Official Market. This Prospectus has been prepared in accordance with Annexes I, III, XXII and XXX of Commission Regulation (EC) No. 809/2004 of April 29, 2004, as amended, the Capital Markets Act and the Stock Exchange Act. This Prospectus has been approved by the FMA. This Prospectus will be filed as a listing prospectus (*Börseprospekt*) with the Vienna Stock Exchange in accordance with the Stock Exchange Act in connection with the application for listing of the Existing Shares on the Official Market, and will be deposited with the notification office (*Meldestelle*) at Oesterreichische Kontrollbank Aktiengesellschaft in accordance with the Capital Markets Act.

No person is or has been authorized to give any information or to make any representation in connection with the offer or sale of the Offer Shares, other than as contained in this Prospectus. Any other information or representation given or made in connection with the Offering must not be relied upon as having been authorized by the Company, the management board *(Vorstand)* of the Company (the "**Management Board**"), any of Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, and Morgan Stanley & Co. International plc ("**Morgan Stanley**") (together the "**Joint Global Coordinators and Joint Bookrunners**" and together with Merrill Lynch International, Barclays Bank PLC and UBS Limited as additional joint bookrunners and COMMERZBANK Aktiengesellschaft and Raiffeisen Centrobank AG as co-lead managers, the "**Underwriters**"). The delivery of this Prospectus at any time after the date hereof shall not, under any circumstances, create any implication that there has been no change in the affairs of BAWAG Group since the date hereof or that the information set out in this Prospectus is correct as of any time since its date. The Selling Shareholders and the Underwriters make no representation or warranty, express or implied, as to the accuracy or completeness or verification of the information in this Prospectus. Nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Selling Shareholders or the Underwriters.

Any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the Offer Shares and which arises or is noted between the approval of this Prospectus by the FMA and the later of completion of the Offering and commencement of trading in the Existing Shares on the Vienna Stock Exchange will be published in a supplement to this Prospectus in accordance with Section 6 of the Capital Markets Act. Such supplement must be approved by the FMA and be published in the same manner as this Prospectus.

The Underwriters are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company and the Selling Shareholders for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

This Prospectus has been prepared to enable investors to evaluate a purchase of the Offer Shares and to comply with the listing requirements of the Vienna Stock Exchange. In making an investment decision, investors must rely on their own examination of the Company, BAWAG Group and the terms of the Offering, including, without limitation, the merits and risks involved. The Offering is being made solely on the basis of this Prospectus.

None of the Company, the Selling Shareholders or the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchasers of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. The contents of this Prospectus are not to be construed as investment, legal, financial or tax advice. Potential investors should consult their own legal, financial, tax or other advisors for legal, financial, tax or related advice regarding an investment in the Offer Shares.

In connection with the Offering, Goldman Sachs International will act as stabilization manager ("**Stabilization Manager**") in its own name, but for the account of the Underwriters, and may over-allot or effect transactions with a view to stabilizing the market price of the Existing Shares at levels above those which might otherwise prevail in the open market for a period of 30 days after the date of commencement of trading of the Existing Shares on the Vienna Stock Exchange. Such transactions may be effected on the Vienna Stock Exchange, in the OTC market or otherwise. However, there is no obligation for the Stabilization Manager to do so. There is no assurance that any stabilization measure will be undertaken and, if it is, it may be discontinued at any time and it must be brought to an end 30 days after the date of commencement of trading of the Existing Shares on the Vienna Stock Exchange. Before, during and after the Stabilization Period (as defined below), the Stabilization Manager will ensure adequate public disclosure of the stabilization measures. See "*4.7 Stabilization Measures, Over-Allotment and Greenshoe Option*".

The investors acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this document, and (iii) that no person has been authorized to give any information or to make any representation concerning the Company or its subsidiaries or the Offer Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Company, the Selling Shareholders or the Underwriters.

NOTICE TO INVESTORS IN THE U.S.

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States for offer or sale as part of their distribution and, subject to certain exceptions, may not be offered or sold, pledged or otherwise transferred in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with applicable state securities laws. The Offer Shares are being offered and sold in the United States only to QIBs in reliance on Rule 144A and outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. Prospective investors are hereby notified that any seller of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Offer Shares are not transferable except in accordance with the restrictions described herein.

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission ("**SEC**"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States. This document does not constitute a prospectus within the meaning of Section 10 of the Securities Act.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA (OUTSIDE AUSTRIA)

This Prospectus has been prepared on the basis that, outside Austria, all offers of the Offer Shares will be made pursuant to an exemption under the Prospectus Directive 2003/71/EC (and any amendments thereto, including Directive 2010/73/EU, the "**Prospectus Directive**"), as implemented in member states of the European Economic Area (the "**EEA**"), from the requirement to produce a prospectus for offers of the Offer Shares. Accordingly, any person making or intending to make any offer of the Offer Shares within the EEA should only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to produce a prospectus for such offer. Neither the Company nor the Underwriters have authorized, nor do they authorize, the making of any offer of the Offer Shares outside Austria through any financial intermediary other than offers made by the Underwriters, which constitute the final placement of the Offer Shares contemplated in this Prospectus.

In relation to each member state of the EEA that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, the offer of any Offer Shares which are the subject of the Offering contemplated by this Prospectus is not being made and will not be made to the public in that Relevant Member State, other than:

(i) to any legal entity which is a 'qualified investor' as defined in Article 2(1)(e) of the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than 'qualified investors' as defined in the Prospectus Directive) in any Relevant Member State; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer or sale of the Offer Shares shall require the Company to publish a prospectus pursuant to the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this notice to investors in the EEA, the expression an "**offer of the Offer Shares**" in relation to the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

Each purchaser of Offer Shares in a Relevant Member State other than, in the case of paragraph (i) below, Austria, who acquires any Offer Shares under the offers contemplated in this Prospectus will be deemed to have represented, agreed and acknowledged that:

(i) it is a qualified investor within the meaning of the law implementing Article 2(1)(e) of the Prospectus Directive; and

(ii) in the case of such person being a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the Offer Shares acquired by it in the Offering have not been acquired other than on a discretionary basis, where that fact means that the offer to the financial intermediary is deemed to be an offer to a qualified investor, nor have they been acquired with a view to their offer or resale to persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Prospectus is for distribution only to, and is directed only at, qualified investors who: (i) are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**FSMA Order**"); (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FSMA Order; or (iii) are other persons to whom they may otherwise lawfully be communicated (all such persons, including qualified investors, together the "**Relevant Persons**").

In the United Kingdom of Great Britain and Northern Ireland (the "**U.K.**"), this Prospectus is directed only at Relevant Persons and must not be acted on or relied on by anyone who is not a Relevant Person. In the United Kingdom, any investment or investment activity to which this Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

NOTICE TO INVESTORS IN AUSTRALIA

This Prospectus (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia ("**Corporations Act**"); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission, the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (c) may not be provided in Australia other than to select investors ("Exempt Investors") who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Offer Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Offer Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offer Shares, each purchaser or subscriber of Offer Shares represents and warrants to the Company, the Selling Shareholders, the Underwriters and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Offer Shares under this Prospectus, any supplement or the accompanying prospectus or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Offer Shares for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Offer Shares each purchaser or subscriber of Offer Shares undertakes to the Company, the Selling Shareholders, the Underwriters and their affiliates that such purchaser or subscriber will not, for a period of 12 months from the date of issue or purchase of the Offer Shares, offer, transfer, assign or otherwise alienate those Offer Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with Australian Securities and Investments Commission.

NOTICE TO INVESTORS IN CANADA

The Offer Shares may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National

Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts*, the underwriters are not required to comply with the disclosure requirements of National Instrument 33-105 *Underwriting Conflicts* regarding underwriter conflicts of interest in connection with this offering.

NOTICE TO INVESTORS IN DUBAI

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for this Prospectus. The Offer Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares offered should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Prospectus you should consult an authorized financial advisor.

NOTICE TO INVESTORS IN JAPAN

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law (Law No.25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

NOTICE TO INVESTORS IN SWITZERLAND

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under articles 27 *et seqq.* of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Offer Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Company, the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**"), and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

TRANSFER AND SELLING RESTRICTIONS

The distribution of this Prospectus and the offer and sale of the Offer Shares are restricted by law in certain jurisdictions. Persons who come into possession of this Prospectus are required to inform themselves about, and to observe, any such restrictions. This Prospectus may not be used for, or in connection with, and does not constitute, an offer to sell, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful.

No action has been taken by the Company that would permit an offer of the Offer Shares or distribution of this Prospectus or any other Offering materials in any jurisdiction other than Austria where action for that purpose is required.

Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements, estimates and predictions.

A forward-looking statement, estimate or prediction is any statement that does not relate to historical facts or events or to facts or events as of the date of this Prospectus. This applies, in particular, to statements in this Prospectus containing information on future earnings capacity, plans and expectations regarding BAWAG Group's business, its growth and profitability, as well as the general economic and legal and regulatory conditions and other factors to which BAWAG Group is exposed. Statements made using one of the following words are forward-looking statements, estimates or predictions: "will", "is likely", "expects", "assumes", "estimates", "plans", "intends" and similar terms. They can be found in several sections in this Prospectus, for instance in the sections "*3 Risk Factors*", "*12 Market and Competitive Environment*", "*13 Business*" and "*26 Recent Developments and Outlook*".

By their very nature, forward-looking statements involve risks and uncertainties, both general and specific. The forward-looking statements, estimates and predictions contained in this Prospectus are based on the Company's current estimates and assessments and made to the best of the Company's knowledge. These forward-looking statements, estimates and predictions are based on assumptions and are subject to risks, uncertainties and other factors, the occurrence or non-occurrence of which could cause actual circumstances – including with regard to the assets, business, financial position and results of operations as well as profitability of BAWAG Group – to differ materially from, fail to meet the expectations or be more negative than expressed or implied in the forward-looking statements, estimates or predictions. Even if future results of BAWAG Group meet the expectations expressed herein, they may not be indicative of the results of any succeeding periods.

BAWAG Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate. Accordingly, investors are strongly advised to consider this Prospectus as a whole and particularly ensure that they have read the following sections of this Prospectus: "*3 Risk Factors*", "*10 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", "*12 Market and Competitive Environment*", "*13 Business*" and "*26 Recent Developments and Outlook*", which include more detailed descriptions of factors that might influence BAWAG Group's business performance and the markets in which it operates.

In light of the assumptions as well as risks, uncertainties and other factors, it is also possible that the future events mentioned in this Prospectus may not occur or may differ materially from actual events. In addition, the forward-looking estimates and forecasts reproduced in this Prospectus from third-party sources could prove to be inaccurate (for more information on third-party sources see "*Information from Third Parties*"). These factors are not necessarily all of the important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements, estimates and predictions. Other unknown or unpredictable factors could also have material adverse effects on future results. The foregoing may prevent the Company from achieving its financial and strategic objectives.

Factors that could, among others, cause actual results to differ include:

- the potential development and impact on BAWAG Group of macroeconomic, political and business conditions and the legal and regulatory environment to which BAWAG Group is subject;
- the developments of the economic and financial markets, including an exit by any current member of the eurozone;
- insolvencies in the financial sector or defaults by sovereign debtors and confidence in the banking system in general;
- the valuation of financial instruments and changes in foreign exchange rates;
- intense competition, rapid technological changes, the further development of BAWAG Group's existing proprietary banking platform, cost-effective development of its brands and its cooperation with its distribution partners;
- the implementation of BAWAG Group's strategic initiatives and other responses thereto;
- its ability to identify and execute acquisitions;

- increased capital and liquidity requirements and other regulatory requirements and reviews;
- the development of aspects of BAWAG Group's results of operations;
- BAWAG Group's expectations of the impact of risks that affect its business, including the risks of losses on BAWAG Group's trading processes and credit exposures;
- exposure to liquidity, maturity, foreign exchange, and market funding risks, and various other typical financial institution market risks relating to interest rates, equity pricing and inflation;
- existing customer loan portfolio exposure to problem and impaired loans;
- failure or breach of BAWAG Group's information technology systems;
- potential inability to recruit or retain experienced personnel or key members of management;
- the risks and uncertainties detailed in "*3 Risk Factors*";
- various operational risks, including risk of systems failures, human error, regulatory breaches, and employee misconduct.

The forward-looking statements, estimates and predictions contained in this Prospectus speak only as of the date of this Prospectus. Investors are advised that the Company, the Selling Shareholders and the Underwriters do not assume any obligation and do not intend to, except as required by law, publicly release any updates or revisions to these forward-looking statements, estimates and predictions to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or to adjust them in line with future events or developments.

INFORMATION FROM THIRD PARTIES

Unless otherwise indicated, statements in this Prospectus regarding the market environment, market developments, growth rates, market trends and the competitive situation in the markets and segments in which BAWAG Group operates are based on data, statistical information, sector reports and third-party studies, as well as BAWAG Group's own estimates. Management estimates – unless otherwise indicated – are based on internal market observations and/or studies by third parties.

To the extent that information has been sourced from third parties, this information has been accurately reproduced by the Company in this Prospectus and, as far as the Company is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, market studies and analyses are frequently based on information and assumptions that may not be accurate or technically correct, and their methodology is, by nature, forward-looking and speculative. The source of such third-party information is cited whenever such information is used in this Prospectus. Such third-party sources include:

- A.T. Kearney and Efma, "Banking in a Digital World", 2013, available at https://www.atkearney.com/documents/10192/3054333/Banking+in+a+Digital+World.pdf/91231b20-788e-41a1-a429-3f926834c2b0;
- BitSight, Security Ratings Report, May 9, 2017, available for subscribed customers;
- DataMarket, "Mutual fund assets to GDP (%)", available at https://datamarket.com/data/set/28lb/mutual-fund-assets-to-gdp#!ds=28lb!2rqc=1b.o.w.16&display=line;
- Deutsche Bundesbank Monthly Report April 2015, "Structural developments in the German banking sector", available at https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/2015/2015_04_monthly_report.pdf?__blob=publicationFile;
- Deutsche Bundesbank, Monthly Report June 2017, available at https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report_Articles/2017/2017_06_outlook.pdf?__blob=publicationFile;
- ECB, MFI Balance Sheets, available at https://www.ecb.europa.eu/stats/money_credit_banking/mfi_balance_sheets/html/index.en.htm;
- ECB press release, "Results of the July 2017 euro area bank lending survey", July 18, 2017, available at https://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr170718.en.html;
- Euromoney, Award for Excellence 2016, Best Bank Austria 2016, available at https://www.euromoney.com/article/b12kpf6znrs16v/euromoney-awards-for-excellence-2016-western-europe-winners-revealed;
- Euromonitor International, "Total population: Euromonitor International from national statistics/UN", available for subscribed customers;
- Eurostat, "Total financial assets and liabilities of households in EU countries, 2015, in % of GDP - Financial balance sheets", available at http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do;

- Eurostat, EU-SILC survey, "Distribution of population by tenure status", available at http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_lvho02&lang=en;
- Eurostat, "ICT usage in households and by individuals, Individuals - internet activities", available at http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do;
- Eurostat, "Long-term unemployment rate statistics; unemployment rate statistics – age group 15-24", available at http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/long-term-unemployment-rate;
- Eurostat, "Total unemployment rate statistics", available at http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_urgan&lang=en;
- Fitch Ratings Limited, Full Rating Report, May 3, 2017, available at https://www.bawagpsk.com/linkableblob/BAWAGPSK/384380/211b28e8c4a4ce5d706a3c23d79a7f62/20170503-fitch-full-rating-report-data.pdf;
- Finanzmarktdatenservice ("**FMDS**"), BAWAG P.S.K. (German language only), February 2017;
- Global Finance, The World's Best Banks 2017, Austrian Bank of the Year 2017, available at https://www.gfmag.com/magazine/may-2017/annual-awards-worlds-best-banks-2017;
- International Monetary Fund, "World Economic Outlook Update", July 2017, available at http://www.imf.org/~/media/Files/Publications/WEO/2017/July/weo-update-july-2017.ashx?la=en;
- International Monetary Fund, "World Economic Outlook Database", April 2017, Gross domestic product, constant prices, available at https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?pr.x=84&pr.y=8&sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&c=163%2C998&s=NGDP_RPCH&grp=1&a=1;
- International Monetary Fund, "World Economic Outlook Database", April 2017, Inflation, average consumer prices, available at https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?pr.x=83&pr.y=11&sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&c=163&s=PCPIPCH&grp=1&a=1;
- IPE Research, "TOP 400 asset managers" (based on assets under management as at December 2016) June 2017, available at https://www.ipe.com/Uploads/2015/06/16/c/l/l/IPE-TOP-400-List-2015.pdf;
- Moody's Investor Service, "Rating Action: Moody's upgrades BAWAG's ratings to A2; outlook positive" released by Moody's Deutschland GmbH, April 16, 2017, available at https://www.bawagpsk.com/linkableblob/BAWAGPSK/383638/85ecc438daa2c87b50173e0d861cf2ef/20170516-credit-opinion-bawag-p-s-k–data.pdf;
- ÖGVS (Gesellschaft für Verbraucherstudien mbH), Studie Direktbanken 2017 – Audit Konditionen und Servicequalität, 05/2017, Zusammenfassung, available at http://www.qualitaetstest.at/tests/direktbanken-test-von-konditionen-und-service-4/;
- ÖGVS, Studie Direktbanken 2016 – Audit Konditionen und Servicequalität 04/2016, available at http://www.qualitaetstest.at/tests/direktbanken-test-von-konditionen-und-service-3/,
- ÖGVS, Studie Direktbanken 2015 – Audit Konditionen und Servicequalität 03/2015, available at http://www.qualitaetstest.at/tests/direktbanken-test-von-konditionen-und-service-2/;
- ÖGVS, Studie Direktbanken 2014 – Audit Konditionen und Servicequalität 02/2014, available at http://www.qualitaetstest.at/tests/direktbanken-test-von-konditionen-und-service/;
- OeNB/Technische Universität Wien (Prof. Feilmayr), "Wohnimmobilienpreisdaten 2017-Q1", available at https://www.oenb.at/Geldpolitik/immobilienmarktanalyse/daten-und-analysen.html;
- OeNB, 33nd Financial Stability Report, June 2017, available at https://www.oenb.at/dam/jcr:1e44a1ed-1359-48ce-922d-82de1c1fd60b/fsr_33.pdf;
- OeNB, "Der Zahlungsverkehr in Österreich", 2016 and Payments Cards & Mobile, Market Analysis, payment cards in Europe (based on 33 European countries);
- OeNB, "Facts on Austria and its Banks", April 2017 (updated July 2017), available at https://www.oenb.at/dam/jcr:7e6acea1-84de-4191-add3-13bcf2d06da8/facts_on_austria_april_2017_1.pdf;
- OeNB, "Facts on Austria and its Banks", October 2016 (updated January 2017), available at https://www.oenb.at/dam/jcr:4d096d37-0174-4fc1-bfc7-c11e602facf8/facts_on_austria_and_its_banks_update_jan_2017_1.pdf;
- OeNB, "Gesamtwirtschaftliche Prognose für Österreich 2017 bis 2019" (German language only), June 2017, available at https://www.oenb.at/dam/jcr:8c34e1b6-308f-4565-b406-f2f12fa39b11/gesamtwirtschaftliche_prognose_juni_2017.pdf;

- OeNB, "OeNB-Konjunkturindikator", August 2017 (German language only), available at https://www.oenb.at/Geldpolitik/Konjunktur/prognosen-fuer-oesterreich/oenb-konjunkturindikator.html;
- OeNB press release, "Decline in risk provisioning supports banks' profits", Presentation of the 33nd Financial Stability Report of the OeNB published on July 14, 2017, available at https://www.oenb.at/en/Media/20170714.html;
- OeNB, article entitled "Direktbanken in Österreich" published in the statistics report for the third quarter 2014, available at https://www.oenb.at/dam/jcr:46b53e43-4efd-47be-b66e-d024a4077344/stat_2014_q3_kurzbericht_sellner.pdf;
- S&P Global Market Intelligence, RoE of ECB supervised banks with a balance sheet exceeding € 15 billion;
- Sigma Report, "World Insurance in 2015", available at https://www.tsb.org.tr/images/Documents/sigma_3_2016_en.pdf;
- Statista, "Leading banks in Austria in 2016", by total assets, 2017, available at https://www.statista.com/statistics/693476/leading-banks-assets-austria/;
- Statistisches Jahrbuch der Stadt Wien (Statistical Yearbook of the City of Vienna), 2016, available at https://www.wien.gv.at/statistik/publikationen/jahrbuch.html;
- The Banker, Bank of the Year Awards 2016 – central and eastern Europe, Austria, 2015 & 2016, available for subscribed customers;
- Vienna Stock Exchange, Monthly Statistics of August 2017 and December 2016, Yearly Statistics 2015, available at https://www.wienerborse.at/en/market-data/statistics/;
- VÖL Verband österreichischer Leasing Gesellschaften "Leasing in Österreich Berichtsperiode 2016 Management Summary" ("**VÖL Leasing in Austria 2016**");
- Wiener Zeitung Online, article entitled "Frischer Wind auf dem Markt für Direktbanken" published on March 31, 2017, available at http://www.wienerzeitung.at/nachrichten/wirtschaft/oesterreich/883098_Frischer-Wind-auf-dem-Markt-fuer-Direktbanken.html;
- World Bank "Bank nonperforming loans to total gross loans (%)" (Austria and EU), available at https://data.worldbank.org/indicator/FB.AST.NPER.ZS?locations=AT-EU;
- World Bank, "Population, total" (Austria), available at https://data.worldbank.org/indicator/SP.POP.TOTL?end=2016&locations=AT&start=1960&view=chart;
- World Bank, "Domestic credit provided by financial sector (% of GDP)", available at https://data.worldbank.org/indicator/FS.AST.DOMS.GD.ZS?contextual=default&locations=AT-OE-DE&name_desc=false; and
- World Bank, Global Financial Inclusion Database, Series "Saved any money in the past year (% aged 15+)", most recent value.

Irrespective of the assumption of responsibility for the contents of this Prospectus by the Company, none of the Company, the Selling Shareholders or the Underwriters have verified the figures, market data and other information used by third parties in their studies, publications and financial information, or the external sources on which the Company's estimates are based. The Company, the Selling Shareholders and the Underwriters therefore assume no liability for and offer no guarantee of the accuracy of the data from studies and third-party sources contained in this Prospectus and/or for the accuracy of data on which the Company's estimates are based.

This Prospectus also contains estimates of market and other data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on own market observations, the evaluation of industry information (from conferences, sector events, etc.) or internal assessments. The Company's management believes that its estimates of market and other data and the information it has derived from such data assists investors in gaining a better understanding of the industry in which BAWAG Group operates and BAWAG Group's position therein. The Company's own estimates have not been checked or verified externally. The Company nevertheless assumes that its own market observations are reliable. The Company, the Selling Shareholders and the Underwriters give no warranty for the accuracy of the Company's own estimates and the information derived therefrom. They may differ from estimates made by competitors of BAWAG Group or from future studies conducted by market research institutes or other independent sources.

Information contained on any website mentioned in this Prospectus, including the website of BAWAG Group, is not incorporated by reference in this Prospectus and is not part of this Prospectus, except as set forth below under the heading "PRESENTATION OF FINANCIAL INFORMATION".

PRESENTATION OF FINANCIAL INFORMATION

The financial statements and auditor's opinions presented in this Prospectus in section "*29 Financial Information*" are English language translations of the German language originals of:

(i) audited consolidated financial statements of the Company as of and for the financial years ended December 31, 2016, December 31, 2015 and December 31, 2014 comprising, in each case, the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements (the "**Audited Consolidated Financial Statements**") and translations of the auditor's opinion for each respective financial year and

(ii) the unaudited interim condensed consolidated financial statements of the Company as of and for the six-month period ended June 30, 2017 comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the interim condensed consolidated financial statements (the "**Unaudited Interim Condensed Financial Statements**" and together with the Audited Consolidated Financial Statements, the "**Financial Statements**").

The German language originals of the Financial Statements and the respective auditor's opinions are publicly available on the Company's website under https://www.bawaggroup.com under the section "investor relations" under the titles "Konsolidierter Zwischenbericht H1", "Konzern-Geschäftsbericht 2016", "BAWAG Holding Konzernabschluss 2015" and "BAWAG Holding Konzernabschluss 2014" and are incorporated by reference into this Prospectus. This Prospectus must be read together with the following pages of the German language originals of the Financial Statements, which are deemed to be included in, and to form part of, this Prospectus:

The German language Audited Consolidated Financial Statements as of and for the financial year ended December 31, 2016 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Vienna, Austria ("**KPMG**"), the German language Audited Consolidated Financial Statements as of and for the financial year ended December 31, 2015 were audited by KPMG and Deloitte Audit Wirtschaftsprüfungs GmbH Renngasse 1, 1010 Vienna, Austria ("**Deloitte**") and the German language Audited Consolidated Financial Statements as of and for the financial year ended December 31, 2014 were audited by Deloitte. In each case, the audits were performed in accordance with the laws and regulations applicable in Austria and International Standards on Auditing, issued by the International Auditing and Assurance Board of the International Federation of Accountants, as stated in the reports attached to the respective consolidated financial statements.

The Company prepares its Audited Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (the "**EU**", the reporting standards being referred to as "**IFRS**") and its Unaudited Interim Condensed Financial Statements were prepared in accordance with IAS 34 Interim Financial Reporting. The Unaudited Interim Condensed Financial Statements have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410. As required by Austrian law, the Company also prepares unconsolidated financial statements in accordance with the generally accepted accounting principles in Austria.

Due to a change in the Company's segments effective as from June 2016, financial information on the segment level for the financial years ended December 31, 2015 and 2014 included in this Prospectus has been adjusted to the new segment structure used in the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016. Financial information on the segment level for the financial year ended December 31, 2015 used in this Prospectus was taken from the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016, unless indicated otherwise, and financial information on the segment level for the financial year ended December 31, 2014 used in this Prospectus was taken from BAWAG Group's accounting records or internal management reporting systems, unless indicated otherwise, because the Audited Consolidated Financial Statements of the Company as of and for the financial years 2015 and 2014 do not reflect the new segment structure. Accordingly, no audited financial information on the segment level for the financial year 2014 is available.

Prior to August 19, 2017, the Company was organized as a limited liability company (*Gesellschaft mit beschränkter Haftung*) with the legal name BAWAG Holding GmbH. In preparation of the Offering, the Company was converted into a stock corporation (*Aktiengesellschaft*) and the Company's legal name was changed from BAWAG Holding GmbH to BAWAG Group AG. For further information, see "*18.3 History of the Company*".

ALTERNATIVE PERFORMANCE MEASURES

Monitoring and management at BAWAG Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of BAWAG Group. The KPI system comprises the dimensions of profitability, growth in the segments, risk limitation, liquidity and capital. As is customary in BAWAG Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and measures under Austrian generally accepted accounting principles, in order to evaluate, monitor and manage the business ("**APM**").

Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS included elsewhere in this Prospectus. Investors are cautioned not to place undue reliance on these APMs and are also advised to review them in conjunction with the financial statement and related notes included elsewhere in this Prospectus.

The following list includes explanations of the definitions of certain key APMs based on BAWAG Group's Financial Statements, as well as information regarding such APMs relevance:

APM	Definition	Relevance of its use / reasons for changes to the definition
Return on Equity ("RoE")	Calculated by dividing net profit by the average equity attributable to the owners of the parent set forth in the Financial Statements ("**IFRS Equity**"). The average IFRS Equity is calculated by adding the end values of the current and the preceding period and dividing the sum by two	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the Financial Statements as a percentage of the respective underlying. RoE and RoTE demonstrate profitability of the bank on the equity invested by its shareholders and thus the success of their investment. RoE (@12% CET1) and RoTE (@12% CET1) provide a normalized profitability measure for both management and investors by expressing the net profit as presented in the Financial Statements as a percentage of the respective underlying at a stable Fully Loaded CET1 ratio of 12%.
RoE (@12% CET1) ("RoE (@12% CET1)")	RoE calculated at a ratio of 12% Common Equity Tier 1 capital ("**CET1**") as defined in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**") on a fully loaded basis, i.e. excluding any transitional capital ("**Fully Loaded**")	
Return on Tangible Equity ("RoTE")	Calculated by dividing net profit by the average IFRS Equity minus the carrying amount of intangible non-current assets set forth in the Financial Statements ("**IFRS Tangible Equity**"). The average IFRS Tangible Equity is calculated by adding the end values of the current and the preceding period and dividing the sum by two	
RoTE (@12% CET1) ("RoTE (@12% CET1)")	RoTE calculated at a Fully Loaded CET1 ratio of 12%	
Net Interest Margin ("Net Interest Margin")	The line item net interest income divided by average interest-earning assets. As of the end of the financial year 2016, the ratio's denominator was changed from average total assets to average interest-earning assets, which change was applied retroactively to all periods under review. The average balance of interest-earning assets is calculated by adding the balance at the end of each month of the financial year and dividing the sum by 12	Net Interest Margin is a performance measure and is expressed as a percentage of what BAWAG Group earns on loans and other interest-earning assets in a time period less the interest it pays on deposits and other liabilities during such period divided by average interest-earning assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments. Investors should note that the definition of Net Interest Margin was changed in fiscal year 2016 whereby the denominator was changed from average total assets to average interest-earning assets. BAWAG Group believes that this change resulted in more reliable and more relevant information on its financial performance because the revised denominator more accurately displays the development of the ratio and reflects the development of the influencing figures and the APM is not influenced by any fluctuation of non interest-earning assets.
Cost-Income Ratio ("Cost-Income Ratio")	Calculated by dividing operating expenses by operating income	Shows operating expenses in relation to operating income, so giving a view of operation efficiency. Management uses the Cost-Income Ratio as a measure of BAWAG Group's efficiency and to compare its efficiency with other financial institutions.

APM	Definition	Relevance of its use / reasons for changes to the definition
Balance Sheet Leverage ("Balance Sheet Leverage")	Calculated by dividing total assets divided by IFRS Equity	The Balance Sheet Leverage expresses the relationship between BAWAG Group's IFRS Equity and its total assets not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The lower the ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Source: Company information.

The table below sets out the figures for APMs that are based on BAWAG Group's Financial Statements:

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited)		(unaudited)		
IFRS Equity	3,348	3,224	3,134	2,956	2,619
IFRS Tangible Equity	2,978	2,891	2,774	2,627	2,285
RoE[3]	12.6%	19.3%	15.9%	14.1%[1]	13.0%[2]
RoE (@12% CET1)[3]	14.7%[6]	20.9%[6]	16.9%[6]	14.4%[6]	12.0%[2]
RoTE[3]	14.2%	21.8%	17.9%	16.1%	15.3%[2]
RoTE (@12% CET1)[3]	16.9%[6]	23.9%[6]	19.2%[6]	16.3%[6]	14.0%[2]
Net Interest Margin	2.23%	2.38%	2.31%	2.35%[4]	2.14%[4]
Cost-Income Ratio[5]	41.7%	42.6%	44.4%	48.4%	53.6%
Balance Sheet Leverage	11.9x	11.9x	12.7x	12.1x	13.3x

1) Number differs from the management report in the consolidated annual report as of and for the financial year 2015 due to rounding differences.
2) Numbers were restated to provide better comparability with the numbers for the financial years 2016 and 2015. Net profit of € 308.2 million for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.
3) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
4) Numbers were restated as per the consolidated annual report as of and for the financial year 2016 and reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
5) Numbers for operating expenses do not include certain regulatory charges that are otherwise included in the line item other operating income and expenses reported on the level of BAWAG Group in the Financial Statements. Consequently, such regulatory charges are disregarded for the calculation of the cost-income-ratio.
6) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*9.4.1 Selected Other Financial Data of BAWAG Group*" and "*9.4.2 Selected Other Financial Data by Segment*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

ROUNDING ADJUSTMENTS

Some figures (including percentages) in this Prospectus have been rounded in accordance with standard commercial rounding. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in tables or stated elsewhere in this Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures stated elsewhere in this Prospectus due to rounding off in accordance with commercial rounding. In the financial statements included in the section bearing the heading "*29 Financial Information*" and in the main body of this Prospectus, a dash ("–") is used where no data was reported for a specific line item in the relevant period, while a zero ("0") is used where the pertinent figure, after rounding, amounts to nil. Negative figures are presented either marked with a minus ("–") or in brackets.

CURRENCY PRESENTATION AND PRESENTATION OF OTHER FIGURES

The amounts set forth in this Prospectus in "€", "EUR" or "euro" refer to the single currency of the participating member states in the third state of the EU pursuant to the Treaty Establishing the European Community.

The following table explains the denotation of currencies used in this Prospectus:

Amounts in	**refer to the legal currency of**
"$", "U.S. $", "USD" or "U.S. dollar"	the United States
"£" and "GBP"	the U.K.
"CHF" or "Swiss Franc"	Switzerland

The functional currency of BAWAG Group is the euro and financial statements are prepared in euro.

Where financial information in this Prospectus is labeled "audited", it means that this information was taken from the Audited Consolidated Financial Statements. The label "unaudited" is used in this Prospectus to indicate financial information that was not taken from the Audited Consolidated Financial Statements, but was taken either from the Unaudited Interim Condensed Financial Statements or taken or derived from BAWAG Group's accounting records or internal management reporting systems.

EXCHANGE RATE INFORMATION

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of the shares on conversion of dividends, if any, paid in euro on the shares. The table below shows the average noon buying rates expressed in U.S. dollars per euro, as announced by the European Central Bank ("**ECB**") for the Company's financial years ended December 31, 2014, December 31, 2015 and December 31, 2016 and for the six-month period ended June 30, 2017. The averages set forth in the tables below were computed using the exchange rate quoted by the ECB at 2:15 p.m. Central European Time of each business day for the indicated periods. The exchange rates stated below are provided solely for the convenience of the reader and are not necessarily the exchange rates used by the Company in the preparation of its Audited Consolidated Financial Statements. No representation is made that U.S. dollars could have been, or could be, converted into euro at these rates or at any other specific rates.

	For the Six-Month Period ended June 30,	**For the Financial Year ended December 31,**				
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
	(unaudited)	**(unaudited)**				
Period end	1.14	1.05	1.09	1.21	1.38	1.32
Average	1.08	1.11	1.11	1.33	1.33	1.28
High	1.14	1.16	1.20	1.40	1.38	1.35
Low	1.04	1.04	1.06	1.21	1.28	1.21

Source: European Central Bank.

DOCUMENTS AVAILABLE FOR INSPECTION

For as long as this Prospectus is valid, copies of the following documents will be available for inspection during regular business hours at the Company's registered office at Wiesingerstraße 4, 1010 Vienna, Austria:

- the articles of association of the Company (*Satzung*; the "**Articles of Association**");
- the Audited Consolidated Financial Statements;
- the Unaudited Interim Condensed Financial Statements; and
- this Prospectus.

Copies of this Prospectus, which will be published in Austria in accordance with Section 10 para. 3 no. 3 of the Capital Markets Act on the Company's website, are available at http://www.bawaggroup.com under the section "investor relations".

The Company's future consolidated annual and interim financial statements will be available from the Company on its website.

The information displayed on the Company's website or any other website to which a reference is made in this Prospectus does not form part of this Prospectus nor is it incorporated by reference into this Prospectus, unless explicitly stated otherwise.

CONSENT TO USE THE PROSPECTUS

The Company gives its express consent to the use of this Prospectus for a subsequent resale or final placement of shares in Austria by financial intermediaries, which are credit institutions within the meaning of Art. 4 para. 1 number 1 CRR and licensed in accordance with Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV**") ("**Financial Intermediaries**"), during the Offer Period, i.e., from October 12, 2017 to October 24, 2017. Financial Intermediaries can make a subsequent resale or final placement of Offer Shares during this period. **Any Financial Intermediary using this Prospectus must (i) state on its website that it uses this Prospectus in accordance with the consent and the conditions attached thereto and (ii) ensure that it complies with all applicable laws and regulations in force in the respective jurisdiction.** The Company accepts responsibility for the content of this Prospectus also with respect to a subsequent resale or final placement of Offer Shares by any Financial Intermediary which was given consent to use this Prospectus; any liability of the Company beyond that is excluded. No other conditions relevant for the use of this Prospectus are attached to the consent. However, the Company may revoke or limit its consent at any time, whereby such revocation or limitation requires a supplement to this Prospectus. **In the event of an offer being made by a Financial Intermediary, such Financial Intermediary will provide information to investors on the terms and conditions of the offer at the time the offer is made.**

TABLE OF CONTENTS

1 SUMMARY OF THE PROSPECTUS

Summaries are made up of disclosure requirements known as 'Elements'. These Elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention "not applicable".

A. Introduction and Warnings

A.1	**Warnings.**	This summary should be read as an introduction to this prospectus (the "**Prospectus**"). Any decision to invest in the Offer Shares (as defined under element C.1 below) should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches to BAWAG Group AG, Vienna, Republic of Austria (the "**Company**" and, together with its consolidated subsidiaries, "**BAWAG Group**"), but only if this summary (including its German translation) is misleading, inaccurate or inconsistent when read together with the other sections of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Offer Shares (as defined under element C.1 below).
A.2	**Consent regarding subsequent use of the Prospectus.**	The Company gives its express consent to the use of this Prospectus for a subsequent resale or final placement of shares in the Republic of Austria ("**Austria**") by financial intermediaries, which are credit institutions within the meaning of Art. 4 para. 1 number 1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**") and licensed in accordance with Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**Financial Intermediaries**"), from October 12, 2017 to October 24, 2017. Financial Intermediaries can make a subsequent resale or final placement of Offer Shares (as defined under element C.1 below) during this period. The Company accepts responsibility for the content of this Prospectus also with respect to a subsequent resale or final placement of Offer Shares (as defined under element C.1 below) by any Financial Intermediary which was given consent to use this Prospectus; any liability of the Company beyond that is excluded. No other conditions relevant for the use of this Prospectus are attached to the consent.

		The Company may revoke or limit its consent at any time, whereby such revocation or limitation requires a supplement to this Prospectus. **Any Financial Intermediary using this Prospectus must (i) state on its website that it uses this Prospectus in accordance with the consent and the conditions attached thereto and (ii) ensure that it complies with all applicable laws and regulations in force in the respective jurisdiction. In the event of an offer being made by a Financial Intermediary, such Financial Intermediary will provide information to investors on the terms and conditions of the offer at the time the offer is made.**
B. The Issuer		
B.1	**Legal and commercial name.**	The Company's legal name is BAWAG Group AG. The Company's as well as BAWAG Group's commercial name is "BAWAG" or "BAWAG P.S.K.".
B.2	**Domicile, legal form, legislation, country of incorporation.**	The Company has its registered office at Wiesingerstraße 4, 1010 Vienna, Austria, and is registered in the Austrian Companies Register *(Firmenbuch)* under registration number FN 269842 b. The Company is an Austrian stock corporation incorporated in Austria and governed by Austrian law.
B.3	**Description of, and key factors relating to, the nature of the issuer's current operations and principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.**	**Business Overview** BAWAG Group is one of Austria's largest banks, serving over 2.2 million customers. BAWAG Group offers a wide range of banking products and services, from retail banking to corporate lending and direct banking, and distributes a range of insurance, investment and other financial products offered by its third-party partners. In the financial year ended December 31, 2016 and in the six-month period ended June 30, 2017, BAWAG Group generated a profit before tax of € 470 million and € 251 million, RoTE of 17.9% and 14.2%, RoTE (@12% CET1) of 19.2% and 16.9% and had a Cost-Income Ratio of 44.4% and 41.7%, respectively (each as defined under element B.7 below). BAWAG Group's financial strength is demonstrated by its Fully Loaded CET1 ratio of 15.5% and a Fully Loaded total capital ratio of 18.1% as of June 30, 2017 (each as defined under element B.7 below). Today, in its own assessment, BAWAG Group's efficiency (as measured by its Cost-Income Ratio) and profitability (as measured by its RoTE and RoE (as defined under element B.7 below)) metrics rank in the top 5% of ECB regulated banks with total assets exceeding € 15 billion across Europe. Following an upgrade of BAWAG P.S.K.'s rating by Moody's in April 2017 to "A2", taking BAWAG P.S.K.'s ratings from Moody's and Fitch ("A-") together, BAWAG P.S.K. currently holds the best ratings from Moody's and Fitch among BAWAG Group's Austrian competitors. BAWAG P.S.K. was awarded "Bank of the Year in Austria" by *The Banker* in 2015 and 2016 for its successful strategic transformation and *Euromoney's* "Best Bank in Austria" in 2016, which in the Company's view highlights BAWAG Group's ability to expand its core businesses, drive efficiency and simplify its business. In addition, through easybank, BAWAG Group is, in its own assessment, the leading direct bank in Austria in 2016 as measured by the number of accounts.

In 2012, BAWAG Group began executing a transformational initiative to improve and restructure its operations that would improve its financial strength and efficiency and profitability metrics. The key pillars of the transformation included (1) re-focusing on core geographic markets and products, (2) driving cost efficiency through disciplined cost management and simplified processes, and (3) deleveraging the balance sheet to increase capital and liquidity. The success of the transformation is best demonstrated by the increase in BAWAG Group's profit before tax from € 23 million in 2012 to € 470 million in 2016, primarily resulting from stronger core revenues (which increased from € 777 million in 2012 to € 923 million in 2016) and reduced operating expenses (which decreased from € 648 million in 2012 to € 439 million in 2016). The increase in BAWAG Group's core revenues was largely driven by the improved performance of its retail and international businesses. As part of BAWAG Group's effort to reduce operating expenses, BAWAG Group implemented a new cost management approach, reduced full time equivalents (FTEs), rationalized its business model and simplified its organizational structure. To facilitate these changes BAWAG Group invested approximately € 250 million in the restructuring and approximately € 200 million in information technology and other infrastructure, including a front-end-advisor tool (GATE), core banking system enhancements (alfa), risk systems and general branch optimization. Alongside these revenue- and cost-focused transformation measures, BAWAG Group also de-risked the balance sheet, which was achieved predominantly by reducing its exposure to Central and Eastern Europe, exiting proprietary trading, reducing the non-performing loans ("**NPL**") volume and introducing improved performance management tools. This contributed, among other things, to a reduction of the NPL ratio, defined as NPLs divided by the total exposure of the bank ("**NPL ratio**"), from 3.5% in 2012 to 1.7% in 2016. Finally, particularly driven by the redemption of non-sustainable capital (€ 1.5 billion), organic capital accretion (€ 1.1 billion) and the reduction of risk-weighted assets, BAWAG Group increased its CET1 ratio (Fully Loaded) from 6.2% in 2012 to 13.6% in 2016.

Building on the transformational initiative introduced in 2012, BAWAG Group's strategy is centered around the following core strategic pillars: (1) Organic and inorganic growth in its core developed markets (currently two-thirds of BAWAG Group's loan book is located in Austria and the remaining third in Western Europe and the United States); (2) Making customers' lives easier by offering simple, transparent and easy-to-understand retail and corporate products; (3) Drive efficiency through a disciplined cost management approach and continued investments in technology; and (4) Safety and security by maintaining a low-risk, low-leverage and well-capitalized balance sheet.

BAWAG Group believes there is potential for organic and inorganic growth in the DACH region (Austria, Germany and Switzerland), which BAWAG Group views as an opportunity to expand its business throughout the region with its customer-focused strategy that centers around on profitability, efficiency and risk management. BAWAG Group's Austrian retail franchise is anchored by its around 17% market share in current accounts (source: FMDS). With its access to these current account customers, BAWAG Group aims to expand its other core retail offerings, such as consumer and auto loan and leasing products, with the goal of reaching a similar market share. Additionally, BAWAG Group believes there are further opportunities to expand its share of wallet across many of its 2.2 million customers by tailoring its product offerings and marketing to its more profitable customers. BAWAG Group seeks to grow its core retail market share by providing customers with 24/7 access to its products and services, leveraging the power of big data to better understand and serve its existing and new customers and continue strengthening its business partnerships.

Given BAWAG Group's capital position and its management's track record of restructuring, BAWAG Group believes that it will be able to capitalize on attractive acquisition opportunities as the European banking sector continues to consolidate. BAWAG Group has completed three strategic bolt-on acquisitions since October 2015 focused on expanding its Austrian retail franchise in its core products of auto leasing, housing loans and building society products. All completed acquisitions have been earnings accretive since consummation and allow BAWAG Group's existing businesses to capitalize on synergies (both revenue and cost), customer acquisition, and cross-selling opportunities. In addition, BAWAG Group recently closed the acquisition of PayLife, the card issuing business of SIX Payment Services Austria. Combined with its existing credit and prepaid card business, this acquisition makes BAWAG Group, in its own assessment, one of the largest card issuer in Austria by number of prepaid and credit cards and enlarges its customer base by creating further cross-selling opportunities to both consumers and businesses. As part of its larger DACH regional strategy, BAWAG Group signed an agreement to acquire SÜDWESTBANK Aktiengesellschaft ("**Südwestbank**"), based in Stuttgart, Germany, in July 2017. The transaction is expected to close in the fourth quarter 2017 or first quarter 2018. Südwestbank has approximately € 7 billion assets and approximately 100,000 retail and business customers as of December 31, 2016. BAWAG Group currently expects a negative impact of around 3.10% on its CET1 ratio (Fully Loaded) from the acquisition. Focused in the economically strong southwestern Germany, the expertise, reputation and deep relationships with small and medium-sized businesses (*Mittelstand*) of Südwestbank make the bank an attractive partner to help BAWAG Group expand its footprint and customer base in Germany. BAWAG Group intends to use Südwestbank as its beachhead in the highly fragmented German banking sector for both organic and inorganic growth.

As of the date of this prospectus, BAWAG Group operates in the following six business segments:

BAWAG P.S.K. Retail. As of June 30, 2017, the BAWAG P.S.K. Retail segment served 1.8 million retail and small business customers. The segment is operated through a centralized branch network and a digital platform supported by a customer care center. The segment's strategy is to offer simple, transparent and easy to understand products and services using a data-driven approach to product offering and customer relationships through branch, online and direct sales channels and capitalizing on BAWAG P.S.K.'s well-recognized national brand. BAWAG Group has entered into strategic partnerships with Amundi, the largest European asset manager, and Generali, one of Europe's largest insurers, to broaden the product offering to the customers in the BAWAG P.S.K. Retail segment by including securities, investment products and insurance. In addition, the BAWAG P.S.K. Retail segment supports Austrian companies with an annual turnover of up to € 50 million and also includes social housing.

easygroup. As of June 30, 2017, easygroup is, in its own assessment, Austria's leading direct banking group, with over 70% current account market share and 55% lending market share among direct banks in Austria. Through online and mobile channels, easygroup offers a full banking product suite ranging from current accounts and savings products to credit cards, consumer loans, housing loans, auto leases and investment products. As of June 30, 2017, easygroup served approximately 426,000 private and small business customers and borrowers. It comprises (i) *easybank*, the, in its own assessment, leading direct bank in Austria as measured by the number of accounts and (ii) *easyleasing*, the third-largest automobile lessor in Austria based on assets as of December 31, 2016 (source: VÖL Leasing in Austria 2016). Furthermore, the recently completed acquisition of PayLife makes easygroup, in its own assessment, one of the largest card issuers in Austria by number of credit and debit cards issued. easybank obtained regulatory clearance to open a branch in Germany, which is planned to operate under the newly-launched brand Qlick in the fourth quarter 2017. The pending acquisition of Südwestbank will further advance and accelerate easybank's expansion in Germany.

The easygroup segment has also expanded its balance sheet by opportunistically acquiring performing residential mortgage loan portfolios in France and the U.K. which contributed 41% of that segment's profit before tax in the financial year 2016.

DACH Corporates & Public Sector. This segment comprises BAWAG Group's corporate and public lending activities and other fee-driven financial services, with a focus on term loans, payment services products and security sales. The segment mainly services Austrian customers, as well as selected client relationships in neighboring countries (primarily Germany). As of June 30, 2017, the DACH Corporates & Public Sector segment served over 4,000 corporate and public sector customers, providing financing, investment and foreign exchange products as well as payment service products. In addition, the segment recently established an originate-to-sell platform in which it organizes public sector loans with a view to sell the investments to insurance companies.

International Business. This segment includes BAWAG Group's international corporate lending and international real estate financing business outside the DACH region, with a focus on developed countries within Western Europe as well as the United States. The segment aims at international corporate, real estate and portfolio lending with a preference for (secured or unsecured) investment grade loans and senior secured non-investment grade loans. The international corporate lending business focuses primarily on lending to free cash flow generating companies with defensive business profiles and appropriate capital structures. The international real estate financing business focuses on senior loan positions in cash flow generating properties. BAWAG Group's International Business segment has limited exposure to land, development and construction financings.

Treasury Services & Markets. BAWAG Group's Treasury Services & Markets segment acts as a service center for all BAWAG Group entities, customers and partners and includes any treasury activities associated with providing trading and investment services such as certain asset-liability management transactions (i.e., the management of interest rates, collateral, capital and FX), funding (secured and unsecured) and the investment results of BAWAG Group's portfolio of financial securities as well as liquidity management, including managing the liquidity reserve of BAWAG Group. The segment maintains a diversified book of investment grade credits with no direct exposure to China, Russia, Hungary, or South-Eastern European countries.

Corporate Center. The Corporate Center contains central functions for BAWAG Group, including providing legal services and managing risks and group asset-liability management. It also includes unallocated expenses such as restructuring expenses, regulatory charges (except contributions to the deposit guarantee scheme) and corporate tax.

Competitive Strengths

BAWAG Group believes that the following competitive strengths have been the primary drivers of its success in the past and will continue to set BAWAG Group apart from its competitors in the future:

- leading bank in a safe-haven economy,
- successful transformation resulting in a strong financial profile,
- multi-channel distribution capability,
- experienced and proven management team,
- conservative risk management processes, and
- track record of successfully sourcing and executing acquisitions.

Strategy

The strategy of BAWAG Group is centered around the following core strategic pillars:

- growing organically and inorganically in core markets,

		• making customers' lives easier, • focusing on efficiency and operational excellence, and • operating the bank in a safe and secure manner.
B.4a	**Description of the most significant recent trends affecting the issuer and the industries in which it operates.**	BAWAG Group's results of operation and financial position are affected by a number of factors, some of which also impact the results of the banking sector in general. The Company believes that the following key factors have affected BAWAG Group's results of operations and financial position since January 1, 2014: • BAWAG Group's earnings are significantly dependent on its net interest income which is particularly affected by the development of interest rates. • BAWAG Group is particularly affected by developments of the regulatory environment applicable to financial institutions. • BAWAG Group is subject to intense competition by traditional banks and new financial technology companies. • BAWAG Group's results depend on its ability to maintain and grow customer deposits as well as on its access to wholesale funding. • BAWAG Group has to adapt to emerging technologies and changes in customer behavior driven by increasing digitalization of the banking business. • BAWAG Group's income taxes and net profit were considerably impacted by the use of tax loss carryforwards, deferred taxes on loss carry forwards and related one-off effects. • BAWAG Group's operations and results were significantly impacted by the integration of various acquired businesses.
B.5	**Description of the group and the issuer's position within the group.**	BAWAG Group AG is the holding company of BAWAG Group. BAWAG Group's business is primarily conducted by its operating subsidiaries, in particular BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft ("**BAWAG P.S.K.**"), easybank AG, and start:bausparkasse AG.
B.6	**Persons who, directly or indirectly, have an interest in the issuer's capital or voting rights or have control over the issuer.**	All of the Company's shares (the "**Existing Shares**") are currently being held by Promontoria Sacher Holding, B.V. ("**PSH**"). At or around Pricing (as defined under element E.3 below), 97,352,387 Existing Shares will be distributed by PSH to its shareholders or entities designated for this purpose by the shareholders. As a result of this distribution and immediately prior to the completion of the Offering (as defined under element E.3 below), approximately 53.0% of the Existing Shares will be held directly by the Cerberus Shareholders (as defined under element C.1 below), approximately 38.8% will be held directly by the GoldenTree Shareholders (as defined under element C.1 below), approximately 2.6% will be held by PSH, and approximately 5.5% of the Existing Shares will be held by a variety of Austrian and non-Austrian minority shareholders.

		Prior to the completion of the Offering (as defined under element E.3 below), the ultimate controlling persons over the Company are several funds and accounts under management of Cerberus (as defined under element C.1 below) and GoldenTree (as defined under element C.1 below), respectively. Upon completion of the Offering (as defined under element E.3 below), the Cerberus Shareholders and the GoldenTree Shareholders will hold 32.1% and 23.5%, respectively of the Existing Shares (assuming the full placement of the Firm Shares (as defined under element C.1 below) and a full exercise of the Greenshoe Option (as defined under element E.3 below)). All of the Existing Shares retained by PSH following the distribution will be sold by PSH in the Offering (assuming the full placement of the Firm Shares (as defined under element C.1 below)).
	Different voting rights.	Not applicable. All Existing Shares have identical voting rights.
	Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control.	Currently, the Company is ultimately controlled by several funds and accounts under management of Cerberus (as defined under element C.1 below) and GoldenTree (as defined under element C.1 below) together holding directly or indirectly approximately 94% of the Existing Shares and voting rights in the Company and, as a result, have the power to govern the financial and operating policies of the Company. Upon completion of the Offering, the Cerberus Shareholders and the GoldenTree Shareholders will hold 32.1% and 23.5%, respectively, of the Existing Shares (assuming the full placement of the Firm Shares (as defined under element C.1 below) and a full exercise of the Greenshoe Option (as defined under element E.3 below)) and will be subject to deconsolidation agreements providing for the avoidance of control; and therefore they, and such funds and accounts under management of Cerberus (as defined under element C.1 below) and GoldenTree (as defined under element C.1 below) will no longer, control the Company.
B.7	**Selected historical key financial information.**	The following selected historical financial and business information of BAWAG Group was taken or derived from, and should be read in conjunction with, the German versions of the audited consolidated financial statements of the Company as of and for the financial years ended December 31, 2016, 2015 and 2014 (the "**Audited Consolidated Financial Statements**") and the German version of the unaudited interim condensed consolidated financial statements of the Company as of and for the six-month period ended June 30, 2017 (the "**Unaudited Interim Condensed Financial Statements**" and together with the Audited Consolidated Financial Statements, the "**Financial Statements**"). The Audited Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). They were audited in accordance with Section 59a of the Austrian Banking Act (*Bundesgesetz über das Bankwesen*) and Austrian generally accepted standards for the audit of financial statements by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Vienna, Austria and/or Deloitte Audit Wirtschaftsprüfungs GmbH Renngasse 1, 1010

Vienna, Austria, who issued unqualified audit opinions thereon. The Unaudited Interim Condensed Financial Statements were prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as adopted by the European Union and have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410.

Due to a change in BAWAG Group's segments effective as from June 30, 2016, financial information on the segment level for the financial years ended December 31, 2015, and 2014, included in this Prospectus has been adjusted to the new segment structure used in the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016. Financial information on the segment level for the financial year ended December 31, 2015, used in this Prospectus was taken from the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016, unless indicated otherwise. Financial information on the segment level for the financial year ended December 31, 2014, used in this Prospectus was taken from BAWAG Group's accounting records or internal management reporting systems, unless indicated otherwise, because the Audited Consolidated Financial Statements of the Company as of and for the financial years 2015 and 2014 do not reflect the new segment structure. Accordingly, no audited financial information on the segment level for the financial year 2014 is available.

In this Prospectus, where financial information for BAWAG Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of the Company. The label "unaudited" is used in this Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Financial Statements of the Company, or from BAWAG Group's accounting records or internal management reporting systems.

Selected Financial Information from the Consolidated Income Statement

The following table shows selected consolidated income statement data of BAWAG Group for the six-month periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014 and financial information derived from such financial statements:

Profit or loss statement

	For the Six-Month Period ended June 30,		For the Financial Year ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Interest income	548.9	528.6[1)]	1,024.4	1,051.3	1,089.9
Interest expense	(160.3)	(154.3)	(297.7)	(339.2)	(424.3)[2)]
Dividend income	6.8	2.0	3.3	10.2	9.8
Net interest income	**395.4**	**376.3**[1)]	**730.0**	**722.3**	**675.4**[2)3)]
Fee and commission income	142.8	140.8	276.3	292.3	302.0
Fee and commission expense	(36.7)	(37.8)	(83.4)	(106.4)	(104.2)
Net fee and commission income	**106.1**	**103.0**	**192.9**	**185.9**	**197.8**
Core revenues	**501.5**	**479.3**[1)]	**922.9**	**908.2**	**873.3**[2)]
Gains and losses on financial assets and liabilities	17.3	22.6[1)]	19.1	64.8	35.9[4)5)6)]
Other operating income and expenses	(24.6)	(29.8)	4.7	(36.4)	(10.3)
thereof regulatory charges[9)]	(27.1)	(33.1)	(84.9)	(35.2)	(24.6)
Administrative expenses	(199.6)	(197.2)	(405.4)	(432.9)	(451.7)[2)7)]
thereof regulatory charges[9)]	(1.03)	(0.93)	(2.3)	(1.6)	(4.6)
Depreciation and amortization on tangible and intangible non-current assets	(19.1)	(18.9)	(36.2)	(38.9)	(47.6)
Risk costs	(26.7)	(15.9)	(42.7)	(45.8)	(84.3)[7)]
Share of the profit or loss of associates accounted for using the equity method	1.8	4.3	8.0	(0.5)	0.9
Profit before tax	**250.6**	**244.4**	**470.4**	**418.5**	**316.2**[4)5)]
Income taxes	(47.1)	39.3	13.4	(24.1)	(0.5)
Profit after tax	**203.5**	**283.7**	**483.8**	**394.4**	**315.7**[4)5)]
Thereof attributable to non-controlling interests	0.0	0.2	0.2	0.0	0.7[4)5)8)]
Thereof attributable to owners of the parent	**203.5**	**283.5**	**483.6**	**394.4**	**315.0**[4)5)8)]

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.
2) Interest expense was restated as per the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2015. Interest expense for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.
3) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015 due to rounding differences.
4) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
5) Gains and losses on financial instruments for BAWAG Group for the financial year 2014 as shown in the above table exclude € 2.8 million in valuation results attributable to shareholders of non-controlling interests, which were included in that line item on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.
6) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014 due to rounding differences.
7) Numbers were restated as per the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2015. Risk costs for BAWAG Group for the financial year 2014 as shown in the above table include provisions and expenses for operational risk in the amount of € 7.2 million, which were included in

operating expenses on the profit or loss statement for BAWAG Group and the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.

8) Profit after tax attributable to non-controlling interests was restated to provide better comparability with the numbers for the financial years 2016 and 2015. Profit after tax attributable to non-controlling interests for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

9) In accordance with IFRS, certain regulatory charges, such as bank levies, contributions to the deposit guarantee scheme and to the single resolution fund, are classified as other operating income and expenses while other regulatory charges, such as supervisory charges, are classified as administrative expenses.

Source: BAWAG Group's Financial Statements.

Selected Financial Information from the Consolidated Statement of Financial Position

The following tables show selected consolidated statement of financial position data of BAWAG Group as of June 30, 2017 and as of December 31, 2016, 2015 and 2014:

Total assets

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)	(audited, unless otherwise indicated) (in € million)		
Cash reserves	887	1,020	809	684
Financial assets designated at fair value through profit or loss	191	202	303	450
Available-for-sale financial assets	3,043	3,209	2,745	3,859
Held-to-maturity investments	2,319	2,353	2,290	2,042
Financial assets held for trading	510	652	950	1,163
Loans and receivables	31,445	30,821	27,396	25,280
Customers	28,003	28,494	24,713	21,779
Securities	1,325	692	973	1,983
Credit institutions	2,117	1,635	1,710	1,518
Hedging derivatives	590	677	469	546
Property, plant and equipment	49	53	59	81[1]
Investment properties	4	3	4	3[1]
Goodwill	58	58	58	58
Brand name and customer relationships	171	174	168	174
Software and other intangible assets	141	128	103	102
Tax assets for current taxes	6	10	20	7
Tax assets for deferred taxes	163	203	190	193
Associates recognized at equity	42	45	43	44
Other assets	97	135	92	100
Assets in disposal groups	–	–	9	68
Total assets	**39,716**	**39,743**	**35,708**	**34,854**

1) Numbers are taken from the statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2015. Because investment properties are listed as a separate line item therein, the number for property, plant and equipment deviates from the number published in the Audited Consolidated Financial Statements as of and for the financial year 2014.

Source: BAWAG Group's Financial Statements.

Total liabilities and equity

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)	(audited, unless otherwise indicated) (in € million)		
Total liabilities				
Financial liabilities designated at fair value through profit or loss	847	1,115	1,269	1,675
Financial liabilities held for trading	405	617	1,071	1,174
Financial liabilities at amortized cost	33,816	32,962	28,514	27,985
Customers	25,359	25,998	21,692	21,127
Issued bonds, subordinated and supplementary capital	5,120	4,900	3,236	4,438
Credit institutions	3,337	2,064	3,586	2,420
Financial liabilities associated with transferred assets	–	300	621	–
Valuation adjustment on interest rate risk hedged portfolios	135	223	169	196
Hedging derivatives	140	260	106	160
Provisions	366	404	419	522
Tax liabilities for current taxes	21	19	6	1
Tax liabilities for deferred taxes	33	27	–	4
Other obligations	604	680	576	512
Obligations in disposal groups	–	–	0	6
Total equity	**3,349**	**3,136**	**2,957**	**2,619**
Equity attributable to the owners of the parent	3,348	3,134	2,956	2,619
Non-controlling interests	1	2	1	–
Total liabilities and equity	**39,716**	**39,743**	**35,708**	**34,854**

Source: BAWAG Group's Financial Statements.

Selected Financial Information from the Consolidated Statement of Cash Flows

The following table shows selected consolidated statement of cash flows data of BAWAG Group for the six-month periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014:

	For the six-month periods ended June 30,		For the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited) (in € million)		(audited) (in € million)		
Cash and cash equivalents at end of previous period	**1,020**	**809**	**809**	**684**	**481**
Net cash from operating activities	(264)	(34)	1,129	(283)	726
Net cash used in investing activities	145	(235)	(575)	853	(171)
Net cash from financing activities	(14)	(7)	(343)	(445)	(352)
Cash and cash equivalents at end of period	**887**	**533**	**1,020**	**809**	**684**

Source: BAWAG Group's Financial Statements.

Selected Other Financial Data

Selected Other Financial Data of BAWAG Group

The key performance indicators for BAWAG Group can be summarized as follows:

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	**2016**	**2016**	**2015**	**2014**
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	395.4	376.3[1]	730.0	722.3	675.4[2,3]
Net fee and commission income	106.1	103.0	192.9	185.9	197.8
Core revenues	501.5	479.3[1]	922.9	908.2	873.3[3]
Operating income	521.2	505.1	990.5	971.8	923.6[3]
Operating expenses[5]	(217.6)	(215.2)	(439.3)	(470.1)	(494.7)[3,4,6,7]
Total risk costs	(26.7)	(15.9)	(42.7)	(45.8)	(84.3)[7]
Profit before tax	250.6	244.4	470.4	418.5	316.2[4,8]
Net profit	203.5	283.5	483.6	394.4	315.0[4,9]
RoE[4,17]	12.6%	19.3%	15.9%	14.1%[10]	13.0%[9]
RoE (@12% CET1)[4,17]	14.7%[19]	20.9%[19]	16.9%[19]	14.4%[19]	12.0%[9]
RoTE[4,17]	14.2%	21.8%	17.9%	16.1%	15.3%[9]
RoTE (@12% CET1)[4,17]	16.9%[19]	23.9%[19]	19.2%[19]	16.3%[19]	14.0%[9]
Return on risk-weighted assets[4,18]	2.19%[19]	3.35%[19]	2.65%[19]	2.30%[19]	1.92%[9]
Return on total assets[18]	1.02%[11]	1.61%[11]	1.22%	1.10%	0.88%[4,9]
Net Interest Margin[4]	2.23%	2.38%[1,12]	2.31%	2.35%[12]	2.14%[12,13]
Cost-Income Ratio[4,5,17]	41.7%	42.6%	44.4%	48.4%	53.6%
Risk costs / loans and receivables[4]	0.17%	0.12%	0.15%	0.17%	0.32%
NPL ratio[4]	1.9%	2.0%[14]	1.7%[13]	1.9%[14]	2.0%[14]
CET1 ratio (Fully Loaded)[17]	15.5%[19]	14.5%[19]	13.6%[19]	12.3%[15,19]	12.2%
Leverage ratio (Fully Loaded)[4]	7.0%	6.6%	6.5%	6.5%	5.7%
Liquidity coverage ratio (LCR)[16]	146%	141%	138%	137%	134%
Total capital ratio (Fully Loaded)[4]	18.1%[19]	17.3%[19]	16.2%[19]	15.0%[15,19]	15.9%

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.

2) Numbers differ from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015 due to rounding differences.

3) Net interest income for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement of BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.

4) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

5) Numbers for operating expenses do not include certain regulatory charges that are otherwise included in the line item other operating income and expenses reported on the level of BAWAG Group in the Audited Consolidated Financial Statements. Consequently, such regulatory charges are disregarded for the calculation of the cost-income-ratio.

6) Operating expenses for BAWAG Group for the financial year 2014 as shown in the above table exclude € 4.6 million in supervisory charges that were shifted to regulatory charges but were included in operating expenses in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015.

7) Total risk costs were restated as per the Audited Consolidated Financial Statements as of and for the financial year 2015. Total risk costs for BAWAG Group for the financial year 2014 as shown in the above table include provisions and expenses for operational risk in the amount of € 7.2 million, which were included in operating expenses in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.

8) Profit before tax for BAWAG Group for the financial year 2014 as shown in the above table excludes valuation results attributable to shareholders of non-controlling interests in the amount of € 2.7 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

9) Numbers were restated to provide better comparability with the numbers for the financial years 2016 and 2015. Net profit of € 308.2 million for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

10) Number differs from the management report in the consolidated annual report as of and for the financial year 2015 due to rounding differences.
11) Numbers are annualized to provide better comparability with the numbers for the financial years 2016, 2015 and 2014.
12) Number for the six-month period ended June 30, 2016, was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and numbers for the financial years 2015 and 2014 were restated as per the consolidated annual report as of and for the financial year 2016 to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
13) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
14) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
15) Numbers were restated as per the capital management in the Audited Consolidated Financial Statements as of and for the financial year 2016 and reflect the reclassification of holding customers.
16) Number is taken from PSH's accounting records or internal management reporting systems (unaudited) and is based on figures for PSH Group.
17) The following table includes the definition of certain key performance indicators of BAWAG Group:

Key Financial Indicator	**Definition**
Return on Equity ("RoE")	Calculated by dividing net profit by the average equity attributable to the owners of the parent set forth in the Financial Statements ("**IFRS Equity**"). The average IFRS Equity is calculated by adding the end values of the current and the preceding period and dividing the sum by two
RoE (@12% CET1) ("RoE (@12% CET1)")	RoE calculated at a ratio of 12% Common Equity Tier 1 capital ("**CET1**") as defined in the CRR on a fully loaded basis, i.e. excluding any transitional capital ("**Fully Loaded**")
Return on Tangible Equity ("RoTE")	Calculated by dividing net profit by the average IFRS Equity minus the carrying amount of non-current intangible assets set forth in the Financial Statements ("**IFRS Tangible Equity**"). The average IFRS Tangible Equity is calculated by adding the end values of the current and the preceding period and dividing the sum by two
RoTE (@12% CET1) ("RoTE (@12% CET1)")	RoTE calculated at a Fully Loaded CET1 ratio of 12%
Net Interest Margin ("Net Interest Margin")	The line item net interest income divided by average interest-earning assets. As of the end of the financial year 2016, the ratio's denominator was changed from average total assets to average interest-earning assets
Cost-Income Ratio ("Cost-Income Ratio")	Calculated by dividing operating expenses by operating income

18) Return calculated on the basis of net profit.
19) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see under "*Selected Other Financial Data by Segment*" for further details regarding the adjusted numbers and "*Significant changes to the issuer's financial condition and operating results.*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)4)	15.7%	14.7%	(1.0)
RoTE (@12% CET1)4)	18.3%	16.9%	(1.4)
Return on risk-weighted assets4)	2.39%	2.19%	(0.20)
CET1 ratio (Fully Loaded)	16.5%	15.5%	(1.0)
Total capital ratio (Fully Loaded)4)	19.3%	18.1%	(1.2)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)4)	21.7%	20.9%	(0.8)
RoTE (@12% CET1)4)	24.9%	23.9%	(1.0)
Return on risk-weighted assets4)	3.52%	3.35%	(0.17)
CET1 ratio (Fully Loaded)	15.1%	14.5%	(0.6)
Total capital ratio (Fully Loaded)4)	18.1%	17.3%	(0.8)

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE (@12% CET1)[4]	17.9%	16.9%	(1.0)
RoTE (@12% CET1)[4]	20.5%	19.2%	(1.3)
Return on risk-weighted assets[4]	2.87%	2.65%	(0.22)
CET1 ratio (Fully Loaded)	15.1%	13.6%	(1.5)
Total capital ratio (Fully Loaded)[4]	18.0%	16.2%	(1.8)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE (@12% CET1)[4]	14.7%	14.4%	(0.3)
RoTE (@12% CET1)[4]	16.7%	16.3%	(0.4)
Return on risk-weighted assets[4]	2.37%	2.30%	(0.07)
CET1 ratio (Fully Loaded)	12.9%	12.3%	(0.6)
Total capital ratio (Fully Loaded)[4]	15.8%	15.0%	(0.8)

Source: BAWAG Group's Financial Statements and Company information.

Selected Other Financial Data by Segment

The following tables show certain key financial information for the segments of BAWAG Group in the periods under review:

BAWAG P.S.K. Retail

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	197.5	169.4	352.3	331.4	361.3
Net fee and commission income	82.3	74.6	141.1	135.9	153.1
Core revenues	279.8	244.0	493.4	467.3	514.4
Operating income	281.7	245.8	495.7	474.9	516.8
Operating expenses	(134.4)	(136.0)	(273.5)	(303.2)	(345.5)
Total risk costs	(16.5)	(17.3)	(40.8)	(33.9)	(40.1)
Profit before tax (= net profit)	116.5	80.1	169.1	131.5	131.2
RoE[1]	23.7%[8]	19.3%[8]	19.2%[8]	16.5%[8]	19.0%
RoE (@12% CET)[1]	27.7%[8]	20.9%[8]	20.4%[8]	16.8%[8]	17.1%
Return on risk-weighted assets[1)5]	5.23%	4.21%	4.09%	3.37%[2]	3.35%
Net Interest Margin[1]	3.38%	3.67%[3]	3.72%	3.56%	3.91%
Cost-Income Ratio[1]	47.7%	55.3%	55.2%	63.8%	66.8%
Risk costs / loans and receivables[1]	0.28%	0.38%	0.39%	0.37%	0.44%
NPL ratio[1]	2.1%	2.4%	2.0%[4]	2.4%[4]	2.9%
Assets	11,632	9,256	11,659	9,178	9,201
Risk-weighted assets	4,471	3,785	4,432	3,827	3,981
Customer deposits[1)6]	17,932	15,597	18,058	15,663	15,881
Own issues[1)7]	2,924	2,561	2,990	2,122	2,435

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
3) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
4) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
5) Return calculated on the basis of net profit.
6) Customer deposits are deposits of retail, business and institutional customers.
7) Debt instruments issued by BAWAG Group.

8) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*Significant changes to the issuer's financial condition and operating results.*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	22.7%	23.7%	1.0
RoE (@12% CET)[1]	28.4%	27.7%	0.7

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	18.8%	19.3%	0.5
RoE (@12% CET)[1]	21.2%	20.9%	0.3

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	18.4%	19.2%	0.8
RoE (@12% CET)[1]	20.9%	20.4%	0.5

	As of and for the financial year ended December 31, 2015		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	16.3%	16.5%	0.2
RoE (@12% CET)[1]	16.9%	16.8%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

easygroup

	As of and for the six-month periods ended June 30,		**As of and for the financial years ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014[1]**
	(unaudited) (in € million except for percentages)		**(audited, unless otherwise indicated) (in € million except for percentages)**		
Net interest income	78.3	60.2[2]	115.8	57.1	31.0
Net fee and commission income	5.4	4.6	10.1	8.1	8.3
Core revenues	83.7	64.8[2]	125.9	65.2	39.3
Operating income	83.2	64.9	124.5	65.3	42.3
Operating expenses	(15.8)	(15.7)	(30.6)	(23.4)	(23.2)
Total risk costs	5.7	(2.1)	(4.8)	0.1	(1.4)
Profit before tax (= net profit)	70.7	44.6	86.7	42.0	17.7
RoE[1]	25.7%[8]	22.1%[8]	17.8%[8]	17.6%[8]	28.1%
RoE (@12% CET)[1]	29.9%[8]	23.9%[8]	19.0%[8]	17.8%[8]	25.5%
Return on risk-weighted assets[1)6]	3.70%[8]	3.30%[8]	2.45%[8]	2.61%[3)8]	5.23%
Net Interest Margin[1]	3.67%	3.54%[2)4]	3.46%	7.32%	9.10%
Cost-Income Ratio[1]	19.0%	24.2%	24.6%	35.9%	54.7%
Risk costs / loans and receivables[1)7]	(0.27)%	0.12%	0.12%	0.00%	0.40%
NPL ratio[1]	2.9%	3.0%[5]	2.0%[5]	1.9%[5]	0.5%
Assets	4,102	3,247	4,458	3,644	378
Risk-weighted assets	3,399[8]	2,594[8]	4,249[8]	2,817[8]	405
Customer deposits[1]	3,761	3,673	3,893	3,204	2,864
Own issues[1]	496	0	585	0	0

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.
3) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
4) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
5) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
6) Return calculated on the basis of net profit.
7) Ratio of provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) to the average of loans and receivables (including provisions).
8) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*Significant changes to the issuer's financial condition and operating results.*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	34.7%	25.7%	(9.0) pp
RoE (@12% CET)[1]	43.2%	29.9%	(13.3) pp
Return on risk-weighted assets[1]	6.12%	3.70%	(2.42) pp
Risk-weighted assets	2,278	3,399	1,121

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	27.7%	22.1%	(5.6) pp
RoE (@12% CET)[1]	31.2%	23.9%	(7.3) pp
Return on risk-weighted assets[1]	4.76%	3.30%	(1.47) pp
Risk-weighted assets	1,849	2,594	745

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	24.1%	17.8%	(6.3) pp
RoE (@12% CET)[1]	27.4%	19.0%	(8.4) pp
Return on risk-weighted assets[1]	4.09%	2.45%	(1.63) pp
Risk-weighted assets	2,346	4,249	1,903

	As of and for the financial year ended December 31, 2015		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	21.5%	17.6%	(3.9) pp
RoE (@12% CET)[1]	22.6%	17.8%	(4.8) pp
Return on risk-weighted assets[1]	3.65%	2.61%	(1.04) pp
Risk-weighted assets	1,897	2,817	920

Source: BAWAG Group's Financial Statements and Company information.

DACH Corporates & Public Sector

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	31.9	40.3	79.5	99.4	112.5
Net fee and commission income	19.8	20.1	39.7	39.2	41.3
Core revenues	51.7	60.4	119.2	138.6	153.9
Operating income	53.4	60.3	120.2	143.7	155.9
Operating expenses	(20.9)	(25.7)	(53.6)	(56.8)	(59.3)
Total risk costs	5.5	1.4	4.4	(6.4)	(34.8)
Profit before tax (= net profit)	38.0	36.0	71.0	80.5	61.8
RoE[1]	14.7%[5]	13.9%[5]	13.8%[5]	15.3%[5]	12.7%
RoE (@12% CET)[1]	17.2%[5]	15.1%[5]	14.6%[5]	15.5%[5]	11.4%
Return on risk-weighted assets[1)4)]	2.73%	2.41%	2.37%	2.27%	1.52%
Net Interest Margin[1]	0.81%	1.05%[2]	1.05%	1.18%	1.30%
Cost-Income Ratio[1]	39.1%	42.6%	44.6%	39.5%	38.0%
Risk costs / loans and receivables[1]	(0.14)%	(0.04%)	(0.06)%	0.08%	0.37%
NPL ratio[1]	0.9%	1.3%[3]	0.9%[3]	1.3%[3]	1.6%
Assets	7,958	7,437	7,812	7,527	8,933
Risk-weighted assets	2,649	2,893	2,916	3,087	4,014
Customer deposits (incl. other refinancing)[1]	6,115	3,759	5,284	5,568	5,393
Own issues[1]	697	200	202	203	213

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
4) Return calculated on the basis of net profit.
5) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*Significant changes to the issuer's financial condition and operating results.*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	14.0%	14.7%	0.7
RoE (@12% CET)[1]	17.4%	17.2%	(0.2)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.5%	13.9%	0.4
RoE (@12% CET)[1]	15.1%	15.1%	0

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.1%	13.8%	0.7
RoE (@12% CET)[1]	14.8%	14.6%	(0.2)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	15.0%	15.3%	0.3
RoE (@12% CET)[1]	15.6%	15.5%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

International Business

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	65.4	67.8	134.0	142.2	100.2
Net fee and commission income	0.0	0.0	(0.1)	0.0	1.1
Core revenues	65.4	67.8	133.9	142.2	101.4
Operating income	64.9	66.1	131.1	136.2	102.8
Operating expenses	(15.0)	(13.3)	(29.9)	(25.7)	(21.7)
Total risk costs	(15.5)	3.0	1.2	0.2	0.3
Profit before tax (= net profit)	34.4	55.8	102.4	110.7	81.4
RoE[1]	12.8%[4]	20.3%[4]	18.8%[4]	19.9%[4]	21.0%
RoE (@12% CET)[1]	14.9%[4]	21.9%[4]	19.9%[4]	20.2%[4]	19.5%
Return on risk-weighted assets[1][3]	1.66%	2.64%	2.34%	2.53%	2.14%
Net Interest Margin[1]	2.45%	2.52%[2]	2.55%	2.64%	2.07%
Cost-Income Ratio[1]	23.1%	20.1%	22.8%	18.9%	21.1%
Risk costs / loans and receivables[1]	0.60%	(0.12)%	(0.02)%	0.00%	(0.01)%
NPL ratio[1]	0.9%	0.0%	0.0%	0.0%	0.1%
Assets	5,130	5,040	5,634	5,748	5,009
Risk-weighted assets	4,099	3,890	4,169	4,565	4,185

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Return calculated on the basis of net profit.

4) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*Significant changes to the issuer's financial condition and operating results.*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	11.9%	12.8%	0.9
RoE (@12% CET)[1]	14.9%	14.9%	0

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	19.5%	20.3%	0.8
RoE (@12% CET)[1]	21.8%	21.9%	0.1

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	17.6%	18.8%	1.2
RoE (@12% CET)[1]	19.8%	19.9%	0.1

	As of and for the financial year ended December 31, 2015		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE[1]	19.4%	19.9%	0.5
RoE (@12% CET)[1]	20.1%	20.2%	0.1

Source: BAWAG Group's Financial Statements and Company information.

Treasury Services & Markets

	As of and for the six-month period ended June 30,		**As of and for the financial years ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014[1]**
	(unaudited) (in € million except for percentages)		**(audited, unless otherwise indicated) (in € million except for percentages)**		
Net interest income	24.9	28.2	54.3	58.1	54.8
Net fee and commission income	0.0	0.0	0.0	0.0	0.0
Core revenues	24.9	28.2	54.3	58.1	54.8
Operating income	34.7	28.9	66.2	71.9	79.7
Operating expenses	(8.0)	(8.0)	(16.3)	(19.0)	(21.6)
Total risk costs	0.0	0.0	(0.0)	0.0	0.0
Profit before tax (= net profit)	26.7	20.9	49.9	52.9	58.1
RoE[1]	14.2%[4]	12.2%[4]	14.5%[4]	14.5%[4]	16.1%
RoE (@12% CET)[1]	16.6%[4]	13.2%[4]	15.4%[4]	14.7%[4]	14.5%
Return on risk-weighted assets[1)3)]	2.59%	2.30%	2.62%	2.57%	2.81%
Net Interest Margin[1]	0.84%	0.98%[2]	0.96%	0.93%	1.01%
Cost-Income Ratio[1]	23.1%	27.7%	24.6%	26.4%	27.1%
Assets and liquidity reserve[1]	7,799	6,302	6,691	6,293	7,577
Risk-weighted assets	2,100	1,842	2,031	1,785	2,325
Own issues and other liabilities[1]	2,404	2,860	2,847	3,367	3,725

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Return calculated on the basis of net profit.
4) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*Significant changes to the issuer's financial condition and operating results.*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.4%	14.2%	0.8
RoE (@12% CET)[1]	16.7%	16.6%	(0.1)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	11.9%	12.2%	0.3
RoE (@12% CET)[1]	13.3%	13.2%	(0.1)

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.7%	14.5%	0.8
RoE (@12% CET)[1]	15.5%	15.4%	(0.1)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	14.3%	14.5%	0.2
RoE (@12% CET)[1]	14.8%	14.7%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

Corporate Center

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Net interest income	(2.6)	10.4	(5.9)	34.1	15.5
Net fee and commission income	(1.4)	3.7	2.1	2.7	(6.1)
Core revenues	(4.0)	14.1	(3.8)	36.8	9.4
Operating income	3.3	39.1	52.8	79.8	26.0
Operating expenses	(23.5)	(16.5)	(35.4)	(42.1)	(23.5)
Total risk costs	(5.9)	(0.8)[2]	(2.7)	(5.8)	(8.3)
Profit before tax	(35.7)	7.0	(8.7)	0.9	(34.1)
Net profit	(82.8)	46.1	4.5	(23.2)	(35.3)
Other assets	3,095	3,447	3,489	3,317	3,757
Risk-weighted assets	1,320	1,404	1,246	1,373	1,902
Equity[1]	3,348	3,224	3,134	2,956	2,619
Other liabilities[1]	2,039	2,854	2,748	2,625	1,722

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

2) Number differs from the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016, due to rounding differences.

Source: BAWAG Group's Financial Statements and Company information.

Significant changes to the issuer's financial condition and operating results.	**Recent developments** From June 30, 2017 through the date of this Prospectus, there have been no significant changes in BAWAG Group's business, financial position or results of operations other than those described below. Consistent with the typical seasonality experienced by BAWAG Group in the summer months, preliminary results for the third quarter 2017 have indicated slightly lower core revenues, mainly driven by marginally lower sales of retail fee products along with lower transactions activities of corporate and public sector clients as well as reductions from the run-off portfolios and non-core businesses. BAWAG Group, however, expects the third quarter 2017 to be stronger as compared to the third quarter 2016 both in terms of top- and bottom-line performance. Also core revenues are expected to grow again in the fourth quarter 2017 through organic growth as well as through the recently completed acquisition of PayLife, the card issuing business of SIX Payment Services Austria and, depending on the timing of the closing, the acquisition of Südwestbank (expected to be completed in the fourth quarter 2017 or the first quarter 2018). With these acquisitions, BAWAG Group intends to expand its core franchise in Germany and increase its customer base by approximately 750,000 new customers. While operating expenses are expected to be slightly lower in the third quarter 2017 given the continued focus on operational efficiencies, they are expected to increase after the completion of the acquisitions and the incremental operating expenses associated with the acquired businesses are expected to decline thereafter as a result of the planned efficiency and integration measures. Risk costs are expected to be broadly in line with the previous quarter, whilst the tax charge reflects the longer term guidance of approximately 22%. BAWAG Group's tax charge for the remainder of the year will also be affected by the day-1 impact of the expected recently completed acquisition of PayLife and, if completed in 2017, the acquisition of Südwestbank. **BAWAG P.S.K. Retail**. In the third quarter 2017, the BAWAG P.S.K. Retail segment has seen continued customer interest in core loan and fee products, especially in housing loans and securities. Certain other products, such as consumer loans and insurance products, have suffered from lower demand, which BAWAG Group believes was attributable to seasonality. BAWAG Group expects demand to increase again in the fourth quarter 2017, which it intends to support with additional marketing campaigns. **easygroup**. While the organic business of the easygroup segment is expected to be largely stable for the third quarter 2017, the segment is expected to grow in the coming quarters due to the recently completed acquisition of PayLife with more than half a million new customers, the addition of an experienced credit card team and the potential of further distribution partnerships. **DACH Corporates & Public Sector**. The DACH Corporates & Public Sector segment is expected to report increased originations with large corporates, especially in

Germany, for the third quarter of 2017 as compared to the third quarter 2016. However, given the low or even negative interest rate environment, BAWAG Group does not expect the origination volume to have a material impact on its net interest income. As in previous years, net commission income is expected to be lower in the third quarter 2017 due to seasonal effects, but BAWAG Group expects that net commission income will be higher in the fourth quarter 2017 with full year 2017 expected to be comparable to 2016.

International Business. The International Business segment experienced a slight downward trend in the first half 2017, but that decline is not expected to continue into the third quarter 2017. The segment has seen fewer early repayments and stable new originations in the third quarter 2017, although the portfolio remains smaller than in 2016. Market conditions were largely stable as compared to the previous year. Because average asset volume for the third quarter 2017 is expected to be slightly lower than the asset volume across the first half 2017, BAWAG Group expects net interest income to be slightly lower in the third quarter 2017 than in the first two quarters 2017.

In the first quarter 2017, BAWAG Group was subject to an on-site inspection requested by the ECB with respect to the treatment and management of credit risk in certain business areas. The inspection focused on a detailed analysis and risk overview of two international residential mortgage loan portfolios (a U.K. residential mortgage loan portfolio acquired in December 2015 and a French residential mortgage loan portfolio acquired in December 2016 through a French securitization vehicle), each forming part of the international retail business allocated to the easygroup segment, and of portfolios in the International Business segment. Furthermore, the organizational framework, policies and procedures and the credit risk management in these areas were evaluated and an analysis of risk-based samples of relevant credit files was conducted.

According to the ECB's findings which were finalized in September 2017, the on-site inspection identified a number of shortcomings in the areas investigated, in particular the incorrect application of certain regulatory provisions resulting in the retrospective adjustment of risk weighted assets ("**RWA**") and related figures in relation to the two international residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. BAWAG Group addressed the finding in relation to the U.K. residential mortgage loan portfolio and established the eligibility for a preferential risk weight of 35% as of June 30, 2017, which will be applied by BAWAG Group going forward. In relation to the French residential mortgage loan portfolio, BAWAG Group increased the reported RWAs as of December 31, 2016 and June 30, 2017 retrospectively (applying for this purpose and going forward a risk weight of 134%), but intends to initiate measures to address the finding in consultation with the ECB.

The retrospective adjustments include adjustments as of and for the six-month period ended June 30, 2017 as set out in the table below:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE (@12% CET1)	15.7%	14.7%	(1.0)
RoTE (@12% CET1)	18.3%	16.9%	(1.4)
Return on risk-weighted assets	2.39%	2.19%	(0.19)
CET1 ratio (Fully Loaded)	16.5%	15.5%	(1.0)
Total capital ratio (Fully Loaded)	19.3%	18.1%	(1.2)

Note: Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited) and have been adjusted from the numbers originally reported by BAWAG Group.

Source: BAWAG Group's Financial Statements and Company information.

The following table sets out the initial effects of certain current and expected events on the CET1 ratio (Fully Loaded) of BAWAG Group, based on BAWAG Group's current estimates and expectations, and the expected timing of their first occurrence. The calculation is based on the respective absolute effects on the CET1 ratio (Fully Loaded) as of June 30, 2017 but does not reflect any potentially positive balancing effects such as further (i.e., not already accounted for as of June 30, 2017) interim profits as of December 31, 2017 or any reduction of RWA due to redemptions within the French and U.K. residential mortgage loan portfolios.

Current and expected events	June 30, 2017	September 30, 2017	December 31, 2017	January 1, 2018
	(unaudited, initial expected effects on CET1 ratio (Fully Loaded) of events in percent points)			
RWA (French Mortgage Loan Portfolio)	(1.02)			
Interim Dividend[1]	(0.29)			
Large Exposure Treatment of the French Mortgage Loan Portfolio (potential fines)		(0.07)		
Completion of acquisition of PayLife			(0.23)	
Expected completion of acquisition of Südwestbank . .			(3.10)	
Impact from IFRS 9				(0.40)

1) The interim profits distributed on September 11, 2017 as Interim Dividend (as defined under element C.1 below) represented 0.29 percent points of the CET1 ratio (Fully Loaded) as of June 30, 2017 (i.e., 0.29 percent points would have been deducted from such CET1 ratio if the Interim Dividend had already been accounted for as of June 30, 2017).

Source: BAWAG Group's Financial Statements and Company information.

In line with its strategic objective of operating its business in a safe and secure manner and also in view of the expected effects in the table above, the Company remains committed to a strong capital position and intends to steer its CET1 ratio (Fully Loaded) going forward towards at least 12%.

B.8	**Selected key pro forma financial information.**	Not applicable. No pro forma financial information has been prepared by the Company.
B.9	**Profit forecast or estimate.**	Not applicable. No profit forecast or estimate has been prepared by the Company.
B.10	**Qualifications in the audit report on the historical financial information.**	Not applicable. The audit reports on the historical financial information included in this Prospectus have been issued without qualifications.
B.11	**Insufficiency of the issuer's working capital for its present requirements.**	Not applicable. The Company's working capital is sufficient for its present requirements.

C.	**Securities**	
C.1	**A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.**	The Offering (as defined under element E.3 below) consists of a total of up to 40,250,000 ordinary bearer shares with no par value (*Stückaktien*), each such share with a notional value of € 1.00 in the share capital and dividend rights as from January 1, 2017 (excluding, however, an interim dividend (*Abschlagszahlung auf den Bilanzgewinn*) of € 51.6 million distributed on September 11, 2017 (the "**Interim Dividend**")), comprising: • up to 17,910,181, 13,108,399, 2,647,613 and 1,333,807, respectively, existing ordinary bearer shares with no par value (*Stückaktien*) (the "**Firm Shares**") from the holdings of (i) Promontoria Holding 212 B.V., Promontoria Holding 213 B.V., Promontoria Holding 214 B.V., Promontoria Holding 215 B.V. and Promontoria Holding 216 B.V. (together the "**Cerberus Shareholders**") owned and controlled by several funds and accounts under management by Cerberus Capital Management LP and its affiliates ("**Cerberus**"), (ii) GoldenTree HoldCo Lux 1 S.à r.l., GoldenTree HoldCo Lux 2 S.à r.l., GoldenTree HoldCo Lux 3 S.à r.l., GoldenTree Asset Management Dutch BV, GN3 SIP LP and Stichting PGGM Depositary (together the "**GoldenTree Shareholders**") which are owned and controlled by, or whose holdings in the Company are subject to an investment management agreement with, GoldenTree Asset Management LP and its affiliates ("**GoldenTree**"), (iii) PSH and (iv) certain minority shareholders (together with the Cerberus Shareholders, the GoldenTree Shareholders and PSH, the "**Selling Shareholders**"); and • up to 5,250,000 existing ordinary bearer shares with no par value (*Stückaktien*) (the "**Over-Allotment Shares**", together with the Firm Shares, the "**Offer Shares**") from the holdings of the Selling Shareholders (other than PSH and certain minority shareholders) to cover a potential Over-Allotment (as defined under element E.3 below). While keeping the maximum number of Offer Shares sold in the Offering (as defined under element E.3 below) constant and without adding any additional selling shareholder, the maximum number of Offer Shares to be sold by each individual Selling Shareholder and, accordingly, the respective shareholdings of the Selling Shareholders in the Company upon completion of the Offering may potentially change. For purposes of admission to trading on the official market of the Vienna Stock Exchange (the "**Official Market**"), this Prospectus relates to all Existing Shares. International Securities Identification Number (ISIN) of the Existing Shares: AT0000BAWAG2
C.2	**Currency of the securities issue.**	euro.
C.3	**The number of shares issued and fully paid and issued but not fully paid.**	The share capital of the Company amounts to € 100,000,000.00 and is divided into 100,000,000 ordinary bearer shares with no par value (*Stückaktien*). The entire share capital is fully paid up.
	The par value per share, or that the shares have no par value.	Each of the Existing Shares represents a notional value of € 1.00 in the share capital.

C.4	**A description of the rights attached to the securities.**	Each of the Existing Shares entitles the shareholder to one vote at the shareholders' meetings of the Company and carries dividend rights as from January 1, 2017 (excluding, however, the distributed Interim Dividend). There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders. In the event of the Company's liquidation, the Company's assets that remain after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.
C.5	**A description of any restrictions on the free transferability of the securities.**	Not applicable. The Existing Shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no restrictions on the transferability of the Existing Shares other than the lock-up agreements described below under E.5.
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.**	The Company will apply for admission of the Existing Shares to trading on the Official Market on or about October 11, 2017. Trading of the Existing Shares on the Vienna Stock Exchange is expected to commence on or about October 25, 2017.
C.7	**A description of dividend policy.**	The Company's future dividend policy targets a distribution of 50% of profit of BAWAG Group after tax determined in accordance with IFRS in a given financial year as dividends assuming that the payment of such dividends is consistent with its long-term and sustainable business development and compliant with existing and proposed regulatory requirements. In addition to the targeted distribution, the Company will assess annually whether excess capital, if any, available above the target level of a Fully Loaded CET1 ratio of at least 12% allows for higher distributions to the shareholders, after taking into consideration investments in organic growth, pending and other M&A opportunities that meet the Company's return profile. However, as a stock corporation under Austrian law, the Company's ability to pay dividends will depend on the amount of accumulated profit pursuant to Austrian generally accepted accounting principles in a given financial year. Furthermore, if the Company decides to pay a dividend in respect of the financial year 2017, the Company targets a distribution of 50% of profit of BAWAG Group after tax from the fourth quarter 2017 (determined in accordance with IFRS and calculated on the basis of the average quarterly profits of 2017).
D.	**Risks**	
		An investment in the Existing Shares is subject to a number of risks. The following risks, alone or together with additional risks and uncertainties not currently known to the Company or that the Company might currently deem immaterial, could materially adversely affect the Company's business, financial position, results of operations and prospects. If any of these risks were to materialize, investors could lose all or part of their investments.

D.1	**Key information on the key risks that are specific to the issuer or its industry.**	Risks related to BAWAG Group's business and the industry in which it operates: • BAWAG Group's business success is dependent on the political and general macroeconomic conditions of the economies in which BAWAG Group is active. • An "exit" by any current member of the European Union ("**EU**") or the eurozone would be unprecedented, and the consequences currently cannot be assessed. Such event may have a material adverse effect on the financial system and the general economic climate in the EU, including Austria, and a significant negative impact on BAWAG Group's business, financial condition, results of operations and prospects. • BAWAG Group is exposed to the risk of defaults of other financial institutions or sovereign debtors. Insolvencies in the financial sector or the default of sovereign debtors could, due to the worldwide interdependency of the financial market, have an adverse effect on the entire financial sector, including BAWAG Group. • BAWAG Group is exposed to intense competition, particularly in its home market of Austria, which could have a material adverse effect on its business, financial condition, results of operations and prospects. • BAWAG Group is dependent on the confidence of its customers in the banking system and the business of BAWAG Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. • A downgrading of BAWAG P.S.K.'s credit rating or the rating relating to specific instruments issued by it (such as covered bonds) could increase its refinancing costs and could have a material adverse effect on BAWAG Group's liquidity, profitability, business, financial condition, results of operations and prospects. • BAWAG Group is exposed to the risk of loss due to changes in foreign exchange rates, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. • BAWAG Group is exposed to various forms of market risks, including interest rate risk and credit spread risks, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. • BAWAG Group is exposed to risks concerning customer and counterparty credit quality which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. • BAWAG Group's monitoring of its loan portfolio is dependent on the effectiveness, and efficient operation, of its processes including credit grading and scoring systems and there is a risk that these systems and processes may not be effective in evaluating credit quality.

- BAWAG Group uses models across many of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated.
- A portion of the assets and liabilities on BAWAG Group's balance sheet comprises financial instruments that it carries at fair value, with changes in fair value recognized in the income statement. As a result of such changes, BAWAG Group may incur losses in the future which could have a material adverse effect on BAWAG Group.
- The international business of BAWAG Group is subject to credit risks, concentration risks, market risks, transfer risks, convertibility risks and political risks.
- Low prices and profitability of real estate could materially impair BAWAG Group's ability to compensate loan defaults by foreclosing on collateral.
- BAWAG Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.
- If BAWAG Group fails to adapt to rapid technological changes its competitiveness could decline.
- If BAWAG Group fails to promote and maintain its brands in a cost-effective manner, BAWAG Group may lose market share and its revenues may decrease.
- Negative publicity due to customer complaints, litigation or other factors, and a negative public perception of BAWAG Group's business, could cause demand for its products to significantly decrease.
- BAWAG Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results while its interim results may not be an indicator of its full year results.
- A termination or reduction of BAWAG Group's close cooperation with its distribution partners could have a material adverse effect on its business, financial condition, results of operations and prospects.
- The intended termination of the cooperation agreement with Austrian Post may not result in the intended cost savings and may negatively impact the customer experience during the transition period or as a result of a smaller branch network resulting in the loss of customers and business opportunities or may have other adverse effects on BAWAG Group.
- Due to any inadequacy or failure of internal procedures, employees and systems or due to external events unexpected losses could occur (operational risk).
- BAWAG Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions.
- Failure of BAWAG Group's IT systems could lead to a significant impairment of the business operations of BAWAG Group.

- BAWAG Group's operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of customer information, damage BAWAG Group's reputation and lead to regulatory penalties and financial losses.
- Investments of BAWAG Group may not yield a return, and the valuation of participations of BAWAG Group could make impairments necessary. The sale of participations may only be possible at a loss.
- BAWAG Group may have difficulty in identifying and executing acquisitions, and both making acquisitions and avoiding them could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.
- Resignation or loss of key personnel, including members of the Management Board, and possible difficulties in recruiting or retaining qualified employees could adversely affect BAWAG Group's ability to execute its strategy.
- The interplay of several risk factors could lead to a mutual amplification of these risks (correlation risk).

Risks related to regulatory, legal and tax matters:

- Past, ongoing and uncertain future reforms and initiatives in legislation or supervision, including additional and more stringent regulation and public sector influence on the financial sector, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.
- European and Austrian legislation regarding the resolution of banks, in particular the powers of resolution authorities to ensure resolvability and to force shareholders and creditors to participate in a situation of crisis, could, if such steps were taken to ensure that BAWAG Group or critical functions thereof continue(s) as a going concern, significantly affect BAWAG Group's business operations, and lead to the loss by BAWAG Group shareholders of their entire investment in the Company.
- Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group.
- Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the Federal Act on the Recovery and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken*) and the Single Resolution Mechanism Regulation, may adversely affect the profitability of BAWAG Group.
- Future asset quality reviews, stress tests, internal model reviews and/or transparency exercises by the European Central Bank ("**ECB**") or the European Banking Authority could lead to detrimental results for BAWAG Group and trigger, in particular, an increased demand for provisions and/or strengthened capital requirements.

- BAWAG Group is subject to risks attributable to findings based on audits, inspections and similar investigations conducted by regulators.
- BAWAG Group's business could be significantly burdened due to the central clearing, reporting, risk mitigation and other compliance requirements imposed by EMIR (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories) and MiFID II (Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU).
- The access of BAWAG Group to liquidity and funding may be adversely affected by a change of the collateral standards of the ECB.
- The cost incurred by BAWAG Group for compliance with anti-money laundering, anti-tax evasion, anti-corruption and anti-terrorism financing rules and regulations and sanctions is significant and may further increase. Failure to comply with these and similar rules may have severe legal and reputational consequences.
- Certain aspects of the tax framework under which BAWAG Group operates, such as the Austrian stability tax, may have a substantial negative effect on BAWAG Group's business, financial condition, results of operations and prospects.
- BAWAG Group's assumptions regarding the deductibility of certain items from its taxable income may prove incorrect which could lead to higher than expected tax payments.
- The introduction of the proposed financial transaction tax could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.
- The mandatory ex-ante funding of the Deposit Guarantee Scheme pursuant to the EU Deposit Guarantee Schemes Directive and its implementation by way of a Federal Act on the Deposit Guarantee and Investor Compensation by Credit Institutions (ESAEG), and possibly higher contributions could have an adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.
- Recent amendments of the Austrian Insolvency Act could have a material adverse effect on its business, financial condition, results of operations and prospects.
- BAWAG Group uses standardized agreements and standardized terms and conditions, in particular in its important retail-focused business segments, which increases the potential that, if any clause is held to be void, this clause is invalid or unenforceable in a large number of contracts.
- BAWAG Group has financial obligations to its employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates.

- BAWAG Group may fail to comply with laws and regulations with respect to private data protection.
- Tightening of consumer protection laws and/or their interpretation as well as compliance with the future implementation of MiFID II may have a negative influence on the profitability of consumer banking transactions.
- Changes in BAWAG Group's financial reporting, such as changes to IFRS, could materially affect BAWAG Group's financial results and regulatory capital ratios.
- BAWAG Group is affected by the new accounting standard IFRS 9, which could negatively impact the Company's own funds and financial condition.
- Despite BAWAG Group's risk management policies, procedures and methods, it may be exposed to unidentified or unanticipated risks, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.
- BAWAG Group is, and may in the future be, subject to a number of legal and regulatory proceedings, the outcome of which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.
- BAWAG Group is a party to a proceeding against the City of Linz before the Commercial Court of Vienna which could have a significant financial impact on BAWAG Group.
- BAWAG P.S.K. is a party to an arbitration proceeding against Austrian Post which could have a significant financial impact on BAWAG Group.
- BAWAG Group is a party to several proceedings before different courts relating to the insolvency of the ALPINE, which could have a significant financial impact on BAWAG Group.
- BAWAG Group operates in an increasingly regulated environment. If BAWAG Group fails to comply with the wide range of laws and regulations applicable to it, including an increasing number of reporting requirements, BAWAG Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigation and criminal prosecution.
- Compliance or non-compliance with legal provisions applicable to it could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

Risks related to the shareholder structure:

- Even after completion of the Offering, Cerberus and GoldenTree will be able to exercise significant influence on the Company, and their interests could come into conflict with the interests of other investors.
- After completion of the Offering, BAWAG Group will no longer be controlled by the Selling Shareholders which may lead to the loss of business opportunities and reduced access to management personnel.

D.3	**Key information on the key risks that are specific to the securities.**	Risks Related to the Existing Shares: • The Offering might not be completed and investors could lose security commissions paid and be exposed to risks from any short selling of the shares of the Company. • Future sales or market expectations of sales of a large number of Existing Shares by the Cerberus Shareholders or the GoldenTree Shareholders could cause the price of the Existing Shares to decline. • The Existing Shares have not yet been publicly traded, and there is no guarantee that a liquid market will develop or continue following the initial public offering. • The price and trading volume of the Existing Shares could fluctuate significantly, and investors could lose all or parts of their investments. • Future capital increases could be dilutive and lead to substantial reductions in the value of the Existing Shares. • The Company's ability to pay dividends or to meet its targeted dividend payout ratio depends primarily on the inflow of funds from the Company's subsidiaries and it may not be able to pay dividends in future financial years, because it does not have any balance sheet profit available for distribution, due to limitations under applicable laws and regulations, because it decides to retain capital for acquisitions or for other reasons. • BAWAG Group will face additional administrative requirements and incur higher ongoing costs as a result of the Company's listing. • Investors with a reference currency other than euro will become subject to foreign exchange rate risk when investing in the Existing Shares. • Rights of shareholders in an Austrian stock corporation may differ from rights of shareholders in a corporation organized under the laws of another jurisdiction. • A suspension of trading in the Existing Shares could adversely affect the share price.
E.	**Offer**	
E.1	**The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror.**	The Company will not receive any proceeds from the Offering (as defined under element E.3 below). The total costs and expenses from the Offering (as defined under element E.3 below) and listing are expected to be approximately € 83.9 million (low end), € 86.9 million (mid-point) and € 89.9 million (hign end), respectively, which will be borne by PSH, except for the commission payable under the Underwriting Agreement (as defined under element E.3 below) which will be borne by all Selling Shareholders on a pro rata basis. If and to the extent PSH fails to bear these costs, the Cerberus Shareholders and the GoldenTree Shareholders will bear these costs on a pro rata basis. The Selling Shareholders will receive the proceeds resulting from the sale of the Firm Shares, and the Selling Shareholders (other than PSH and certain minority shareholders) will receive the proceeds resulting from a potential sale of Over-Allotment Shares to the extent the Greenshoe Option (as defined under element E.3 below) is exercised.

		The amount of the proceeds as well as the costs of the Offering (as defined under element E.3 below), depend on the offer price, which also determines the Underwriters' (as defined under element E.4 below) commissions, and on the number of shares that will be placed in the Offering (as defined under element E.3 below). The Company estimates that at the low end, mid-point and high end of the price range set for the Offering (as defined under element E.3 below) (the "**Price Range**"), gross proceeds to the Selling Shareholders (assuming placement of the maximum number of Firm Shares and assuming full exercise of the Greenshoe Option (as defined under element E.3 below)) would amount to approximately € 1,892 million (low end), € 1,992 million (mid-point) and € 2,093 million (high end), respectively. Assuming an offer price at the low end, mid-point and high end of the Price Range, and that the maximum number of Firm Shares is placed and the Greenshoe Option (as defined under element E.3 below) has been fully exercised, and assuming further payment in full of the discretionary fee of up to € 33.1 million (low end), € 34.9 million (mid-point) and € 36.6 million (high end), respectively, the commission payable to the Underwriters (as defined under element E.4 below) will amount to € 56.8 million, € 59.8 million and € 62.8 million, respectively. Assuming that the maximum number of Firm Shares is placed and the Greenshoe Option (as defined under element E.3 below) has been fully exercised, the Company estimates that at the low end, mid-point and high end of the Price Range, net proceeds for the Selling Shareholders would amount to approximately € 1,808 million, € 1,905 million and € 2,003 million, respectively. Investors will not be charged with expenses by the Company or the Underwriters (as defined under element E.4 below) in connection with their role as underwriters.
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds.**	The Company intends to achieve better access to the capital markets due to the planned listing of the Existing Shares on the Official Market. Furthermore, following the listing of the Existing Shares on the Official Market, the Company may issue additional shares as acquisition currency in future M&A transactions. The Company will not receive any proceeds from the Offering (as defined under element E.3 below).
E.3	**A description of the terms and conditions of the offer.**	The Offer Shares will be offered in an international offering (the "**Offering**"), which consists of (i) a public offering to retail and institutional investors in Austria and (ii) a private placement outside Austria to selected institutional investors, including a private placement within the United States of America (the "**United States**" or the "**U.S.**") to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and outside of the United States to certain other eligible institutional investors in reliance on Regulation S under the Securities Act. The Offer Shares have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction of the United States and may not be offered, sold or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction

not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

Offer Period

The period during which investors may submit purchase orders for the Offer Shares will commence on October 12, 2017 and is expected to end on October 24, 2017, at or at about 14:00 (Central European Summer Time) for institutional investors. Retail investors may submit their orders only until (and including) October 23, 2017.

Retail investors who wish to purchase Offer Shares are advised to contact their bank, their broker or their financial advisor about the further details of the procedures to purchase Offer Shares.

Price Range and Offer Price; Allocation

The Price Range within which purchase offers may be submitted ranges from € 47.00 to € 52.00 per share. The Cerberus Shareholders and the GoldenTree Shareholders expect to set the offer price jointly with the Joint Global Coordinators and Joint Bookrunners (as defined under element E.4 below), on the basis of the purchase orders submitted by investors that have been collated in the order book prepared during a bookbuilding process, on or about October 24, 2017 (the "**Pricing**"). In the bookbuilding process, the Underwriters collect purchase orders from investors at several prices between the lower and upper limits of the price range. Purchase bids can be revised by the bidding investor before the book closes. The orders received during the bookbuilding process will be evaluated according to the prices offered and the investment horizons of the respective investors and upon consideration of several factors. The allotment of Offer Shares to retail investors and institutional investors will be decided after consultation with the Joint Global Coordinators and Joint Bookrunners. The decision will ultimately be taken jointly by the Cerberus Shareholders and the GoldenTree Shareholders at their sole discretion. Allotments will be made on the basis of the quality of the individual investors and investor orders and other important allotment criteria to be determined after consultation with the Joint Global Coordinators and Joint Bookrunners (as defined under element E.4 below). Thus, it is possible that investors who have submitted a purchase order are not allocated any shares or that they are allocated less shares than the number of shares contemplated in the purchase orders they have submitted, for example because the price they have set in their respective orders is lower than the final offer price, or because the Offering has been oversubscribed. Particularly if the placement volume proves insufficient to satisfy all orders placed at the final offer price, the Underwriters (as defined under element E.4 below) reserve the right to reject orders, or to accept them in part only.

Amendments to the Terms of the Offering

The Cerberus Shareholders and the GoldenTree Shareholders reserve the right, after consultation with the Joint Global Coordinators and Joint Bookrunners (as defined under element E.4 below), to reduce or increase the number of shares offered, to reduce or increase the upper/lower limits of the Price Range and/or to extend or curtail the offer period. The Cerberus Shareholders and the GoldenTree Shareholders may increase the total number of shares offered in the Offering up to a maximum of the total number of shares for which the application for admission to the regulated market of the Vienna Stock Exchange is filed in accordance with this Prospectus or any supplement published.

The underwriting agreement among the Company, the Selling Shareholders and each of the Underwriters (as defined under element E.4 below) (the "**Underwriting Agreement**") will provide that the Joint Global Coordinators and Joint Bookrunners (as defined under element E.4 below), acting on behalf of the Underwriters, may under certain circumstances terminate the Underwriting Agreement, including after the Offer Shares have been allotted and listed, up to delivery and settlement. If the Underwriting Agreement is terminated, the Offering will not take place. In this case, any allotments already made to investors will be invalidated, and investors will have no claim for delivery. Claims with respect to security commissions already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the institution to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

Delivery and Payment

The delivery of the Offer Shares against payment of the offer price is expected to take place on or about October 30, 2017.

Stabilization Measures, Over-Allotment and Greenshoe Option

Under the possible stabilization measures which may be taken to support the market price of the Existing Shares and thereby counteract any selling pressure, investors may, in addition to the Firm Shares, be allotted up to 5,250,000 Over-Allotment Shares ("**Over-Allotment**"). In connection with potential Over-Allotments, Goldman Sachs International will be provided for the account of the Underwriters (as defined under element E.4 below) in the form of a securities loan (*Wertpapierdarlehen*) with up to 5,250,000 Over-Allotment Shares; this number of shares will not exceed 15% of the number of Firm Shares. In connection with potential Over-Allotments, the Selling Shareholders (other than PSH and certain minority shareholders) will grant the Underwriters (as defined under element E.4 below) an option to acquire the borrowed shares against payment of the offer price less agreed commissions ("**Greenshoe Option**"). The Greenshoe Option may be exercised for a number of Existing Shares up to the number of shares that have been placed by way of Over-Allotments. The Greenshoe Option shall be exercisable by Goldman Sachs International acting as stabilization manager from the date the Existing Shares are listed on the regulated market of the Vienna Stock Exchange up to 30 calendar days after that date.

E.4	**A description of any interest that is material to the issue/ offer including conflicting interests.**	In connection with the Offering and admission to trading of the Existing Shares, the Underwriters (as defined below) have entered into a contractual relationship with the Company and the Selling Shareholders. The Underwriters (as defined below) act for the Company and the Selling Shareholders on the Offering and coordinate the structuring and execution of the Offering. In addition, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, and Morgan Stanley are acting as joint global coordinators and joint bookrunners (the "**Joint Global Coordinators and Joint Bookrunners**"). Merrill Lynch International, Barclays Bank PLC and UBS Limited have been appointed as additional joint bookrunners. COMMERZBANK Aktiengesellschaft and Raiffeisen Centrobank AG have been appointed as co-lead managers (together with the Joint Global Coordinators and Joint Bookrunners, the additional joint bookrunners and the co-lead managers, the "**Underwriters**"). In addition, Raiffeisen Centrobank AG will act as specialist for the Existing Shares. Raiffeisen Centrobank AG has been appointed as paying agent. The Underwriters will receive a commission and other payments upon successful completion of the Offering. The amount of the commission will depend on the size of the Offering and the offer price. The Underwriters therefore have an interest that as many shares as possible are placed at the highest price possible. Raiffeisen Centrobank AG will not receive any fees for acting as specialist but will receive fees as paying agent after completion of the Offering. The Underwriters and their affiliates have provided and may in the future, from time to time, provide services to BAWAG Group and/or the Selling Shareholders in the ordinary course of business in their capacity as financial institutions, in particular advisory services in connection with M&A transactions, financing transactions and margin loans related to Existing Shares. They may at any time in the future act as principal or agent for one or more than one party, hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities or loans of BAWAG Group. In the event of a successful Offering the other Underwriters may also be selected as financial advisor in future transactions or act as lender or arranger of future financing transactions or trade for their own account or the accounts of customers, in debt or equity securities or loans of BAWAG Group. Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for their own account, may acquire shares in the Offering and in that capacity may retain, purchase or sell for its own account such shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which Underwriters (or their affiliates) may from time to time acquire, hold or dispose of shares in the Company.

		As of the date of this Prospectus, several funds and accounts under management of Cerberus and GoldenTree together hold through PSH approximately 94% of the Existing Shares and as such have an influence on the decisions which the Company will take with respect to the Offering. The Selling Shareholders will receive the proceeds resulting from the Offering. The ultimate controlling persons over the Cerberus Shareholders and GoldenTree Shareholders are such funds and accounts under management of Cerberus and GoldenTree, respectively. Consequently, such funds and accounts under management of Cerberus and GoldenTree, respectively, have an interest in the success of the Offering on the best possible terms. On July 12, 2017, all of the members of the Management Board of the Company and certain senior staff members of BAWAG P.S.K. entered into forward share purchase agreements with the Cerberus Shareholders, the GoldenTree Shareholders, PSH, Cerberus Capital Management LP and GoldenTree Asset Management LP. Under such forward share purchase agreements, all of such persons may request as purchasers delivery of Existing Shares depending on the appreciation of the value of the Company, with the maximum of Existing Shares being delivered upon a value of € 5.05 billion (or higher). It cannot be excluded that the incentive inherent in the rights of the purchasers under the forward share purchase agreements to increase the value of the Company may decrease or cease to exist for any purchaser who divests his shareholding after the expiry of a 360 day lock-up period. Hence, the purchasers may be incentivized to focus more on a short-term increase of the value of the Company, including a placement of Offer Shares in the Offering at the highest price possible, than on the increase of the value in the longer term.
E.5	**Name of the person or entity offering to sell the security.**	The Offer Shares are being offered for sale by the Underwriters. Retail investors who wish to purchase Offer Shares are advised to contact their bank, their broker or their financial advisor about the details of the procedure to purchase Offer Shares.
	Lock-up agreements: the parties involved; and indication of the period of the lock up.	In the Underwriting Agreement, the Company will commit to an obligation vis-à-vis the Underwriters that it will refrain from certain measures regarding capital increases and measures with a similar effect during the period commencing on the date of the Underwriting Agreement and ending 180 days after the first day of trading of the Company's Existing Shares on the Official Market without the prior written consent of Goldman Sachs International and Morgan Stanley, which consent may not be unreasonably withheld or delayed, and subject to certain exceptions. In addition, in the Underwriting Agreement, the Selling Shareholders will, severally and not jointly, commit to an obligation vis-à-vis the Underwriters that they will not enter into certain transactions regarding the Existing Shares or take part in certain measures regarding the Company's share capital during a certain period, as further explained below, without the prior written consent of Goldman Sachs International and Morgan Stanley, which consent may not be unreasonably withheld or delayed, and subject to certain exceptions. The lock-up period will commence on the date

		of the Underwriting Agreement and will end (i) in the case of the Cerberus Shareholders and the GoldenTree Shareholders 450 days after the first day of trading of the Existing Shares on the Official Market, whereby the commitment contemplates three different phases: whereas in the first phase (which ends 180 days after the first day of trading of the Existing Shares on the Official Market) the commitment shall apply to all of the Existing Shares held by these shareholder groups, in the second phase (which begins the day after the first phase and ends 180 days thereafter) and in the third phase (which begins the day after the second phase and ends 90 days thereafter) certain Existing Shares from the shareholdings of the Cerberus Shareholders and the GoldenTree Shareholders, respectively, are excluded from the lock-up commitment; and (ii) in the case of the other Selling Shareholders (including PSH), 180 days after the first day of trading of the Existing Shares on the Official Market. The Underwriting Agreement will contemplate further details regarding the lock-up of the Cerberus Shareholders or the GoldenTree Shareholders and the permitted sales during the second and third phases of the commitment and the conditions and requirements attached thereto. Notably, the above described lock-up restrictions shall not apply, in the case of the Cerberus Shareholders and GoldenTree Shareholders, to (i) any disposal for the purposes of pledging or encumbering any Existing Share to or for the benefit of any Underwriter (or their affiliates) that has entered into a margin loan as lender in connection with a margin loan and (ii) any disposal for the purposes of transferring any Existing Shares pursuant to any enforcement of security over Existing Shares granted by the Cerberus Shareholders or GoldenTree Shareholders to or for the benefit of a margin loan lender in connection with a margin loan, provided that any proposed transferee of such Existing Shares pursuant to an enforcement of security shall have agreed, for the remainder of the first phase of the lock-up period, to be bound by the same restrictions. Furthermore, in accordance with the Underwriting Agreement, each of the members of the Management Board will, severally and not jointly, commit to an obligation vis-à-vis the Underwriters that he will not, during the period commencing on the date of the Underwriting Agreement and ending 360 days after the first day of trading of the Existing Shares on the Official Market, enter into certain transactions or perform certain actions with respect to the Existing Shares, subject to certain exceptions.
E.6	**The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.**	Not applicable. The Offering comprises only Existing Shares and will not lead to any dilution. The net asset value of BAWAG Group according to IFRS amounted to € 3,349 million (€ 3,348 million excluding non-controlling interests) as of June 30, 2017. This corresponds to € 33.48 (excluding non-controlling interests) per Existing Share.
E.7	**Estimated expenses charged to the investor by the issuer or the offeror.**	Except for customary banking fees, investors will not be charged with expenses by the Company or the Underwriters.

2 ZUSAMMENFASSUNG DES PROSPEKTS (GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS)

Die nachfolgende Übersetzung der Originalzusammenfassung ist ein separates Dokument, welches diesem Prospekt angeschlossen wurde. Sie ist selbst nicht Bestandteil dieses Prospekts und wurde nicht von der Finanzmarktaufsichtsbehörde gebilligt. Des Weiteren hat die Finanzmarktaufsichtsbehörde die Konsistenz der nachfolgenden Übersetzung mit der Originalzusammenfassung nicht geprüft.

Zusammenfassungen bestehen aus erforderlichen Angaben, die als "Punkte" bezeichnet werden. Diese Punkte sind in den Abschnitten A – E (A.1 – E.7) fortlaufend nummeriert. Diese Zusammenfassung enthält alle Punkte, die für die vorliegende Art von Wertpapieren und Emittenten in eine Zusammenfassung aufzunehmen sind. Da einige Punkte nicht behandelt werden müssen, können in der Nummerierungsreihenfolge Lücken auftreten. Selbst wenn ein Punkt wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass in Bezug auf diesen Punkt keine relevanten Informationen gegeben werden können. In diesem Fall enthält die Zusammenfassung eine kurze Beschreibung des Punktes mit dem Hinweis "Entfällt".

A. Einleitung und Warnhinweise

A.1	**Warnhinweise.**	Diese Zusammenfassung sollte als Einführung zu diesem Prospekt (der "**Prospekt**") verstanden werden. Bei jeder Anlageentscheidung bezüglich der Angebotenen Aktien (wie unten in C.1 definiert) sollte sich der Anleger auf die Prüfung dieses gesamten Prospekts stützen. Für den Fall, dass vor einem Gericht Ansprüche auf Grund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der klagende Anleger nach den nationalen Rechtsvorschriften der Mitgliedsstaaten des Europäischen Wirtschaftsraums die Kosten für die Übersetzung dieses Prospekts vor Prozessbeginn zu tragen haben. BAWAG Group AG, Wien, Republik Österreich (im Folgenden auch die "**Gesellschaft**" und gemeinsam mit ihren konsolidierten Tochtergesellschaften, die "**BAWAG Gruppe**") kann für den Inhalt dieser Zusammenfassung (einschließlich ihrer deutschen Übersetzung) haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung (einschließlich ihrer deutschen Übersetzung) irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird oder, wenn sie zusammen mit den anderen Teilen des Prospekts nicht alle wesentlichen Informationen offenlegt, die den Anlegern bei der Entscheidung, ob sie in die Angebotenen Aktien (wie unten in C.1 definiert) anlegen sollen, helfen sollen.
A.2	**Zustimmung zur späteren Verwendung des Prospekts.**	Die Gesellschaft erteilt ihre ausdrückliche Zustimmung zur Verwendung dieses Prospekts für den späteren Wiederverkauf oder die endgültige Platzierung von Aktien in der Republik Österreich ("**Österreich**") vom 12. Oktober 2017 bis 24. Oktober 2017 durch Finanzintermediäre, die gemäß Art. 4 Abs. 1 Nummer 1 der Verordnung (EU) Nr. 575/2013 des Europäischen Parlaments und des Rates vom 26. Juni 2013 über Aufsichtsanforderungen an Kreditinstitute und Wertpapierfirmen (die "**CRR**") Kreditinstitute sind und gemäß der Richtlinie 2013/36/EU des Europäischen Parlaments und des Rates vom 26. Juni 2013 über den Zugang zur Tätigkeit von Kreditinstituten und die Beaufsichtigung von Kreditinstituten und Wertpapierfirmen zugelassen sind ("**Finanzintermediäre**").

		Finanzintermediäre können während dieses Zeitraums einen Wiederverkauf tätigen oder die endgültige Platzierung der Angebotenen Aktien (wie unten in C.1 definiert) vornehmen. Die Gesellschaft übernimmt die Verantwortung für den Inhalt dieses Prospekts, auch im Hinblick auf einen künftigen Wiederverkauf oder die endgültige Platzierung von Angebotenen Aktien (wie unten in C.1 definiert) durch einen Finanzintermediär, der die Genehmigung zur Verwendung dieses Prospekts erhalten hat; jegliche darüber hinausgehende Haftung der Gesellschaft ist ausgeschlossen. Die Genehmigung ist nicht an andere für die Verwendung dieses Prospekts relevante Bedingungen gebunden. Die Gesellschaft kann ihre Genehmigung jederzeit widerrufen oder einschränken; dieser Widerruf oder diese Einschränkung machen einen Nachtrag zu diesem Prospekt erforderlich. **Finanzintermediäre, die diesen Prospekt verwenden, müssen (i) auf ihrer Website angeben, dass sie diesen Prospekt gemäß der Genehmigung und den damit einhergehenden Konditionen verwenden, und (ii) dafür sorgen, dass sie alle einschlägigen Gesetze und Vorschriften einhalten, die in der betreffenden Rechtsordnung in Kraft sind. Sollte ein Finanzintermediär ein Angebot unterbreiten, wird der betreffende Finanzintermediär Anlegern zum Zeitpunkt der Angebotsunterbreitung Informationen zu den Angebotsbedingungen zur Verfügung stellen.**
B. Emittent		
B.1	**Juristische und kommerzielle Bezeichnung.**	Die juristische Bezeichnung der Gesellschaft lautet BAWAG Group AG. Der kommerzielle Name der Gesellschaft und der BAWAG Gruppe lautet "BAWAG" oder "BAWAG P.S.K.".
B.2	**Sitz, Rechtsform, geltendes Recht, Land der Gründung.**	Die Gesellschaft unterhält ihren eingetragenen Firmensitz unter Wiesingerstraße 4, 1010 Wien, Österreich, und ist im Österreichischen Firmenbuch unter der Nummer FN 269842 b eingetragen. Die Gesellschaft ist eine in der Republik Österreich gegründete österreichische Aktiengesellschaft und unterliegt österreichischem Recht.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten samt der hierfür wesentlichen Faktoren unter Angabe der Hauptprodukt- und/oder -dienstleistungskategorien sowie Hauptmärkte, auf denen der Emittent vertreten ist.**	**Übersicht der Geschäftstätigkeit** Die BAWAG Gruppe ist mit über 2,2 Millionen Kunden eine der größten Banken in Österreich. Die BAWAG Gruppe bietet ein breites Sortiment von Bankprodukten und -dienstleistungen an, vom Privatkundengeschäft bis hin zu Unternehmenskrediten und Direktbankgeschäften, und vertreibt eine Auswahl an Versicherungen, Investment- und anderen Finanzprodukten ihrer externen Partner. Die BAWAG Gruppe erzielte in dem am 31. Dezember 2016 endenden Geschäftsjahr bzw. in dem am 30. Juni 2017 endenden Sechsmonatszeitraum einen Jahresüberschuss vor Steuern in Höhe von € 470 Millionen bzw. einen Periodengewinn vor Steuern in Höhe von € 251 Millionen, RoTE in Höhe von 17,9% bzw. 14,2%, RoTE (@12% CET1) von 19,2% bzw. 16,9% und hatte eine Cost/Income Ratio in Höhe von 44,4% bzw. 41,7% (wie jeweils unten in B.7 definiert). Die finanzielle Stärke der BAWAG Gruppe

wird verdeutlicht durch ihre harte Kernkapitalquote (Vollumsetzung) (CET1-Quote) in Höhe von 15,5% und die Gesamtkapitalquote (Vollumsetzung) in Höhe von 18,1% zum 30. Juni 2017 (wie jeweils unten in B.7 definiert). Mit ihren Kennzahlen für Effizienz (gemessen an ihrem Cost/ Income Ratio) und Profitabilität (gemessen an ihrem RoTE und RoE (wie unten in B.7 definiert)) liegt die BAWAG Gruppe heute, nach ihrer eigenen Einschätzung, in der Gruppe der Top 5% der von der Europäischen Zentralbank ("**EZB**") regulierten Banken mit Aktiva von mehr als € 15 Milliarden in Europa. Im April 2017 wurde das Moody's-Rating von BAWAG P.S.K. auf "A2" angehoben und unter Berücksichtigung des Ratings von Moody's und Fitch ("A-") hat BAWAG P.S.K. derzeit im Vergleich mit den Wettbewerbern der BAWAG Gruppe in Österreich die besten Ratings von Moody's und Fitch. BAWAG P.S.K. wurde 2015 und 2016 durch das Magazin "The Banker" für ihre erfolgreiche strategische Neuausrichtung als "Bank des Jahres in Österreich" und 2016 von "Euromoney's" als "Beste Bank in Österreich" ausgezeichnet, was nach Einschätzung der Gesellschaft die Fähigkeit der BAWAG Gruppe unterstreicht, ihr Kerngeschäft auszubauen, ihre Effizienz zu steigern und ihr Geschäft zu vereinfachen. Des Weiteren ist die BAWAG Gruppe, durch die easybank, nach ihrer eigenen Einschätzung, die führende Direktbank in Österreich gemessen an der Kontenzahl im Jahr 2016.

Im Jahr 2012 begann die BAWAG Gruppe, zur Verbesserung und Neustrukturierung ihrer geschäftlichen Aktivitäten einen Transformationsprozess mit dem Ziel umzusetzen, ihre finanzielle Stärke und Effizienz sowie ihre Profitabilitätskennzahlen zu steigern. Die tragenden Säulen dieser Transformation beinhalten (1) die Refokussierung auf geographische Kernmärkte und Kernprodukte, (2) die Steigerung der Kosteneffizienz durch diszipliniertes Kostenmanagement und vereinfachte Prozesse und (3) die Reduzierung der bilanziellen Verschuldung, um Kapital und Liquidität zu erhöhen. Der Erfolg dieser Transformation wird am besten an dem Zuwachs des Jahresüberschusses vor Steuern der BAWAG Gruppe von € 23 Millionen im Jahr 2012 auf € 470 Millionen im Jahr 2016 deutlich, was in erster Linie auf den höheren operativen Kernerträgen (die von € 777 Millionen im Jahr 2012 auf € 923 Millionen im Jahr 2016 gewachsen sind) und geringeren operativen Aufwendungen (die von € 648 Millionen im Jahr 2012 auf € 439 Millionen im Jahr 2016 gesunken sind) beruht. Das Wachstum der operativen Kernerträge der BAWAG Gruppe wurde im Wesentlichen von der verbesserten Leistung ihres Privatkundengeschäfts und ihres internationalen Geschäfts getrieben. Als Teil der Anstrengungen der BAWAG Gruppe, die operativen Aufwendungen zu reduzieren, hat die BAWAG Gruppe ein neues Kostenmanagement eingeführt, ihre Mitarbeiterzahl reduziert, ihr Geschäftsmodell rationalisiert und ihre Organisationsstruktur vereinfacht. Zur Durchführung dieser Änderungen hat die BAWAG Gruppe etwa € 250 Millionen in die Restrukturierung und etwa € 200 Millionen in die Informationstechnologie und andere Infrastrukturmaßnahmen investiert, einschließlich Investitionen in Informations- und Beratungssysteme für den Filialvertrieb (GATE), Verbesserungen des Kernbankensystems (alfa), Risikosysteme und allgemeine

Filialoptimierung. Neben diesen ertrags- und kostenbezogenen Transformationsschritten hat die BAWAG Gruppe Risikopositionen aus ihrer Bilanz entfernt, indem sie vor allem ihre Zentral- und Osteuroparisiken reduziert, den Eigenhandel eingestellt, das Volumen von notleidenden Krediten ("**NPL**") verringert und verbesserte Performance-Management-Tools eingeführt hat. Neben anderen Maßnahmen führte dies zu einer Reduzierung des Anteils notleidender Kredite am Gesamtkreditportfolio der Bank ("**NPL ratio**") von 3,5% im Jahr 2012 auf 1,7% im Jahr 2016. Zudem ist es der BAWAG Gruppe insbesondere durch die Verringerung nicht mehr anrechenbaren Kapitals (€ 1,5 Milliarden), organisches Kapitalwachstum (€ 1,1 Milliarden) und die Reduzierung risikogewichteter Aktiva gelungen, ihre Harte Kernkapitalquote (Vollumsetzung) von 6,2% im Jahr 2012 auf 13,6% im Jahr 2016 zu steigern.

Aufbauend auf der im Jahr 2012 begonnenen Transformationsinitiative stützt sich die Strategie der BAWAG Gruppe auf die folgenden zentralen strategischen Säulen: (1) Organisches und anorganisches Wachstum in ihren entwickelten Kernmärkten (derzeit sind zwei Drittel des Kreditportfolios der BAWAG Gruppe in Österreich und das übrige Drittel in West-Europa und den Vereinigten Staaten von Amerika (die "**Vereinigten Staaten**") belegen); (2) das Leben der Kunden durch das Angebot einfacher, transparenter und leicht verständlicher Produkte für Privat- und Firmenkunden leichter machen; (3) Effizienzsteigerungen durch ein diszipliniertes Kostenmanagement und weitere Investitionen in Technologie; und (4) Sicherheit und Umsicht durch die Beibehaltung einer risikoarmen und kapitalstarken Bilanz mit geringem Verschuldungsgrad.

Die BAWAG Gruppe glaubt an ein attraktives Potential für organisches und anorganisches Wachstum in der DACH-Region (Österreich, Deutschland und Schweiz), von dem die BAWAG Gruppe erwartet, dass es ihr die Möglichkeit eröffnen wird, mit ihrem Geschäft in dieser Region mit ihrer kundenbezogenen Strategie, in deren Mittelpunkt Profitabilität, Effizienz und Risikomanagement stehen, zu expandieren. Das Privatkundengeschäft der BAWAG Gruppe ist mit einem Marktanteil von etwa 17% an Girokonten (Quelle: FMDS) in Österreich verankert. Aufgrund ihres Zugangs zu diesen Girokontenkunden, ist die BAWAG Gruppe gut positioniert, um auch bei ihren übrigen Kernprodukten im Bereich Privatkunden, wie z.B. Verbraucherkredite sowie Automobilkredite und -leasing, ähnliche Marktanteile zu erreichen. Zudem glaubt die BAWAG Gruppe, dass es weitere Opportunitäten gibt, die Bindung zahlreicher ihrer 2,2 Millionen Kunden zu steigern, indem sie kundenspezifische Produkte anbietet und gezielt ihre profitableren Kunden anspricht. Die BAWAG Gruppe beabsichtigt, den Marktanteil in ihrem Kerngeschäft mit Privatkunden zu steigern, indem sie ihre Produkte und Leistungen rund um die Uhr verfügbar macht und die Möglichkeiten von Big Data besser nutzt, um ein besseres Verständnis für ihre bestehenden und zukünftigen Kunden zu haben, ihnen bessere Leistungen anbieten zu können und ihre Geschäftspartnerschaften weiter zu stärken.

In Anbetracht der starken Kapitalposition der BAWAG Gruppe und der Erfolgsgeschichte ihres Managements in der Restrukturierung ist die BAWAG Gruppe überzeugt, dass es ihr gelingen wird Akquisitionschancen zu nutzen, die im Zusammenhang mit der fortgesetzten Konsolidierung des europäischen Bankensektors entstehen. Die BAWAG Gruppe hat zur Ergänzung ihres Geschäfts seit Oktober 2015 drei strategische Akquisitionen abgeschlossen, die auf den Ausbau ihres österreichischen Privatkundengeschäfts mit ihren Kernprodukten Automobilleasing, Wohnbaudarlehen und Produkten für Wohnungsbaugesellschaften abzielten. Alle erfolgten Akquisitionen tragen seit ihrem Vollzug positiv zu den Erträgen bei und ermöglichen es der BAWAG Gruppe auf Grundlage ihrer bisherigen Geschäftstätigkeit diese für Synergieeffekte (sowohl bezüglich des Ertrags als auch bezüglich der Kosten), zur Kundengewinnung und für Cross-Selling-Chancen zu nutzen. Des Weiteren hat die BAWAG Gruppe vor kurzem den Erwerb von PayLife, dem Kartenausgabegeschäft von SIX Payment Services Austria vollzogen. Zusammen mit ihrem bestehenden Kredit- und Prepaidkartengeschäft ist die BAWAG Gruppe durch diesen Erwerb, nach ihrer eigenen Einschätzung, einer der größten Kartenanbieter in Österreich geworden (gemessen an der Anzahl der Kredit- und Prepaidkarten), hat ihre Kundenbasis vergrößert und so weitere Cross-Selling-Chancen sowohl im Geschäft mit Verbrauchern als auch mit Unternehmen erlangt. Im Rahmen ihrer umfassenderen DACH-bezogenen Strategie hat die BAWAG Gruppe im Juli 2017 einen Vertrag zum Erwerb der in Stuttgart, Deutschland, ansässigen SÜDWESTBANK Aktiengesellschaft ("**Südwestbank**") abgeschlossen. Es wird erwartet, dass die Transaktion im vierten Quartal 2017 oder ersten Quartal 2018 vollzogen wird. Zum 31. Dezember 2016 hatte die Südwestbank eine Bilanzsumme von etwa € 7 Milliarden und etwa 100.000 Privat- und Firmenkunden. Die BAWAG Gruppe erwartet aufgrund der Übernahme gegenwärtig eine Schmälerung des Harten Kernkapitals (CET1) von ungefähr 3,10%. Mit ihrem Fokus auf den wirtschaftlich starken Südwesten Deutschlands ist die Südwestbank aufgrund ihrer Expertise, Reputation und der engen Beziehungen im Geschäft mit mittelständischen Unternehmen ein attraktiver Partner, um der BAWAG Gruppe von ihrem Standort im Korridor zwischen Österreich, Deutschland und der Schweiz aus bei dem Ausbau ihres Profils und ihrer Kundenbasis in Deutschland zu helfen. Die BAWAG Gruppe beabsichtigt, die Südwestbank als Brückenkopf sowohl für organisches als auch anorganische Wachstum im stark fragmentierten deutschen Bankenmarkt zu nutzen.

Zum Zeitpunkt dieses Prospekts ist die BAWAG Gruppe in den folgenden sechs Geschäftssegmenten tätig:

BAWAG P.S.K. Retail. Zum 30. Juni 2017 betreute das Segment BAWAG P.S.K Retail 1,8 Millionen Privatkunden und kleine Unternehmenskunden. Das Segment wird über ein zentrales Filialnetz sowie eine digitale Plattform betrieben und durch ein Kundenbetreuungszentrum unterstützt. Die Strategie des Segments besteht darin, mit einem datengetriebenen Ansatz für Produktangebote und Kundenbeziehungen einfache, transparente und leicht zu verstehende Produkte und Dienstleistungen über Filialen, Online- und Direktvertrieb anzubieten und dabei die anerkannte nationale Marke BAWAG P.S.K. zu vermarkten. Die BAWAG Gruppe hat mit Amundi, dem größten europäischen Vermögensverwalter, und Generali, einer der größten europäischen Versicherer, strategische Partnerschaften abgeschlossen, um das Produktangebot durch Einbeziehung von Wertpapieren, Anlageprodukten und Versicherungen für die Kunden des Segments BAWAG P.S.K. Retail zu erweitern. Zusätzlich bedient das Segment BAWAG P.S.K. Retail österreichische Unternehmen mit einem Jahresumsatz von bis zu € 50 Millionen und umfasst auch den sozialen Wohnbau.

easygroup. Zum 30. Juni 2017 ist easygroup, nach ihrer eigenen Einschätzung, Österreichs führende Direktbank-Gruppe mit einem Marktanteil von 70% im Bereich Girokonten und einem Anteil von 55% am Kreditmarkt unter den Direktbanken in Österreich. easygroup bietet online und über mobile Kanäle eine komplette Banking-Produktpalette an, die von Girokonten und Sparprodukten zu Kreditkarten, Verbraucherdarlehen, Wohnungsbaudarlehen, Autoleasing und Anlageprodukten reicht. Zum 30. Juni 2017 verfügte easygroup über ca. 426.000 private und kleine Geschäftskunden und Kreditnehmer. Sie umfasst (i) *easybank*, die, nach ihrer eigenen Einschätzung, führende Direktbank in Österreich (gemessen an der Anzahl der Konten) sowie (ii) *easyleasing*, die, unter Berücksichtigung der Bilanzsumme zum 31. Dezember 2016, drittgrößte Automobil-Leasinggesellschaft in Österreich (Quelle: VÖL Leasing in Österreich 2016). Darüber hinaus macht der kürzlich vollzogene Erwerb von PayLife easygroup, nach ihrer eigenen Einschätzung, gemessen an der Anzahl der ausgegebenen Kredit- und Debitkarten zu einem der größten Kartenanbieter in Österreich. easybank hat die erforderliche Genehmigung erhalten, um eine Zweigniederlassung in Deutschland zu eröffnen, die unter der neu gestarteten Marke Qlick ab dem vierten Quartal 2017 betrieben werden soll. Die noch laufende Übernahme der Südwestbank wird die Expansion von easybank in Deutschland weiter vorantreiben und beschleunigen.

Das easygroup Segment hat seine Bilanz außerdem durch den opportunistischen Erwerb von zwei wohnwirtschaftlichen Hypothekenkreditportfolien in Frankreich und im Vereinigten Königreich Großbritannien und Nordirland erweitert, die im Geschäftsjahr 2016 41% des Jahresüberschusses vor Steuern dieses Segments beigesteuert haben.

DACH Corporates & Public Sector. Dieses Segment umfasst das Kreditgeschäft der BAWAG Gruppe mit Firmenkunden und der öffentlichen Hand sowie andere gebührenpflichtige Finanzdienstleistungen mit einem Schwerpunkt auf Laufzeitkrediten, Zahlungsdienstleistungen und dem Verkauf von Wertpapieren. Das Segment richtet sich vor allem an österreichische Kunden sowie ausgewählte Kunden in den Nachbarländern (vor allem Deutschland). Zum 30. Juni 2017 versorgte DACH Corporates & Public Sector über 4.000 private und öffentliche Kunden mit Finanzierungs-, Anlage- und

Devisenprodukten sowie Zahlungsdienstleistungen. Darüber hinaus hat das Segment kürzlich eine "Originate-to-sell"-Plattform gegründet, auf der Kredite an die öffentliche Hand mit Blick auf einen Verkauf an Versicherer verwaltet werden.

International Business. Dieses Segment umfasst die Kredite im internationalen Kommerzkunden- und Gewerbeimmobilienbereich der BAWAG Gruppe außerhalb der DACH-Region mit einem Fokus auf Industrieländer innerhalb Westeuropas sowie der Vereinigten Staaten angesiedelt sind. Das Segment zielt auf die Finanzierung im Kommerzkunden-, Gewerbeimmobilien- und Portfoliofinanzierungsbereich mit einer Präferenz für (besicherte und unbesicherte) Investment-Grade-Kredite und vorrangig besicherte Non-Investment-Grade-Kredite. Das internationale Unternehmenskreditgeschäft konzentriert sich vor allem auf die Kreditvergabe an Unternehmen, die einen Free Cashflow generieren und ihren Umsatz mit einem defensiven Geschäftsmodell und entsprechenden Kapitalstrukturen erzielen. Das Portfolio internationaler Immobilienkredite setzt den Schwerpunkt auf vorrangige Kredite für Cashflow generierende Objekte. Das Exposure des Segments International Business hinsichtlich Grundstücke, Entwicklungs- oder Bauprojekten ist gering.

Treasury Services & Markets. Das Segment Treasury Services & Markets der BAWAG Gruppe fungiert als Service-Center für alle BAWAG-Konzerngesellschaften, Kunden und Partner und umfasst alle Treasury-Aktivitäten im Zusammenhang mit der Erbringung von Handels- und Investment-Dienstleistungen (wie z.B. für bestimmte Asset-Liability-Management-Transaktionen (d.h. das Management von Zinsen, Sicherheiten, Kapital und Währungen), die eigene Refinanzierung (besichert und unbesichert) und die Veranlagung der Anlageergebnisse des Wertpapierportfolios der BAWAG Gruppe) sowie dem Liquiditätsmanagement, einschließlich der Verwaltung der Liquiditätsreserve der BAWAG Gruppe. Das Segment unterhält ein Portfolio von diversifizierten Investment-Grade-Krediten ohne direktes Exposure gegenüber China, Russland, Ungarn oder südosteuropäischen Ländern.

Corporate Center. Das Corporate Center umfasst zentrale Funktionen der BAWAG Gruppe, einschließlich der Bereitstellung von Rechtsdienstleistungen und des Risikomanagements und des Asset-Liability-Managements für den Konzern. Es umfasst auch nicht anderweitig zugeordnete Aufwendungen wie z.B. Restrukturierungsaufwendungen, aufsichtsrechtliche Aufwendungen (außer Beiträge zum Einlagensicherungssystem) und die Körperschaftssteuer.

Wettbewerbsstärken

Die BAWAG Gruppe ist überzeugt, dass die folgenden Wettbewerbsstärken der Haupteinflussfaktor ihres Erfolgs in der Vergangenheit waren und der BAWAG Gruppe auch in Zukunft weiterhin von ihren Wettbewerbern abheben werden:

- führende Bank in einem sicheren wirtschaftlichen Umfeld,

- erfolgreicher Wandel, der ein starkes Finanzprofil begründet,
- Vertriebsstrategie, die sämtliche Vertriebswege umfasst,
- erfahrenes und bewährtes Management-Team,
- konservative Risikomanagementprozesse, und
- Erfolgsbilanz bei der erfolgreichen Identifizierung und Umsetzung von Akquisitionen.

Strategie

Die Strategie der BAWAG Gruppe stützt sich auf die folgenden zentralen strategischen Säulen:

- organisches und anorganisches Wachstum in Kernmärkten,
- Erleichterung des Lebens der Kunden,
- Fokussierung auf Effizienz und operative Exzellenz, sowie
- Steuerung der Bank auf sichere und umsichtige Weise.

B.4a **Wichtigste jüngste Trends, die sich auf den Emittenten und die Branchen, in denen er tätig ist, auswirken.**

Die Betriebsergebnisse und die Finanzlage der BAWAG Gruppe werden von einer Reihe von Faktoren beeinflusst; einige davon betreffen ebenfalls die Ergebnisse des Bankensektors im Allgemeinen. Die Gesellschaft ist der Auffassung, dass die im Folgenden erörterten Faktoren die Betriebsergebnisse und die Finanzlage der BAWAG Gruppe seit dem 1. Januar 2014 beeinflusst haben:

- Die Erträge der BAWAG Gruppe hängen erheblich von der Entwicklung ihrer Nettozinserträge ab, welche besonders durch die Entwicklung des Zinsniveaus beeinflusst werden.
- Die BAWAG Gruppe wird durch Entwicklungen des regulatorischen Umfelds für Finanzinstitute besonders beeinflusst.
- Die BAWAG Gruppe ist starkem Wettbewerb durch traditionelle Banken und neue Finanztechnologieunternehmen ausgesetzt.
- Die Ergebnisse der BAWAG Gruppe hängen von ihrer Fähigkeit, Kundeneinlagen aufrechtzuerhalten und zu steigern sowie von dem Zugang zu externen Refinanzierungsquellen ab.
- Die BAWAG Gruppe muss sich aufkommenden Technologien und Veränderungen des Kundenverhaltens anpassen, die durch die zunehmende Digitalisierung getriebenen werden.
- Die Einkommenssteuern und der Nettogewinn der BAWAG Gruppe sind durch die Verwendung von Steuerverlustvorträgen sowie von latenten Steuern auf Verlustvorträge und damit verbundener Einmaleffekte erheblich beeinflusst worden.
- Die Geschäftstätigkeit und die Ergebnisse der BAWAG Gruppe sind durch die Integration von erworbenen Unternehmen erheblich beeinflusst worden.

B.5	**Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe.**	BAWAG Group AG ist die Holdinggesellschaft der BAWAG Gruppe. Das Geschäft der BAWAG Gruppe wird in erster Linie durch die operativen Töchter, insbesondere die BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft ("**BAWAG P.S.K.**"), easybank AG und start:bausparkasse AG geführt.
B.6	**Personen, die eine direkte oder indirekte Beteiligung am Eigenkapital des Emittenten oder einen Teil der Stimmrechte halten sowie Beherrschungsverhältnisse.**	Derzeit werden alle von der Gesellschaft ausgegebenen Aktien die ("**Ausgegebenen Aktien**") von der Promontoria Sacher Holding, B.V. ("**PSH**") gehalten. Zur oder um die Preisfestsetzung (wie unten in E.3 definiert) werden 97.352.387 Ausgegebene Aktien von der PSH an ihre Gesellschafter oder Gesellschaften, die zu diesem Zweck von den Gesellschaftern bestimmt werden, ausgeschüttet werden. Infolge dieser Ausschüttung werden unmittelbar vor Abschluss des Angebots (wie unten in E.3 definiert) rund 53,0% der Ausgegebenen Aktien unmittelbar von den Cerberus Aktionären (wie unten in C.1 definiert), rund 38,8% unmittelbar von den GoldenTree Aktionären (wie unten in C.1 definiert), rund 2,6% unmittelbar von der PSH und rund 5,5% der Ausgegebenen Aktien von verschiedenen österreichischen und nicht-österreichischen Minderheitsaktionären gehalten. Vor Abschluss des Angebots (wie unten in E.3 definiert) sind die obersten beherrschenden Personen verschiedene Fonds und Kunden, die bzw. deren Bestände von Cerberus (wie unten in C.1 definiert) und von GoldenTree (wie unten in C.1 definiert) verwaltet werden. Nach Abschluss des Angebots (wie unten in E.3 definiert) werden die Cerberus Aktionäre und die GoldenTree Aktionäre weiterhin 32,1% bzw. 23,5% der Ausgegebenen Aktien halten (unter Annahme der vollständigen Platzierung der Verbindlichen Aktien (wie unten in C.1 definiert) und einer vollständigen Ausübung der Greenshoe Option (wie unten in E.3 definiert)). Alle von PSH nach der Ausschüttung zurückbehaltenen Ausgegebenen Aktien werden von PSH im Rahmen des Angebots verkauft (unter Annahme der vollständigen Platzierung der Verbindlichen Aktien (wie unten in C.1 definiert)).
	Unterschiedliche Stimmrechte.	Entfällt. Alle Ausgegebenen Aktien haben identische Stimmrechte.
	Ob an dem Emittenten unmittelbare oder mittelbare Beteiligungen oder Beherrschungsverhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschung ausübt und welcher Art die Beherrschung ist.	Derzeit wird die Gesellschaft letztlich von verschiedenen Fonds und Kunden, die bzw. deren Bestände von Cerberus (wie unten in C.1 definiert) und von GoldenTree (wie unten in C.1 definiert) verwaltet werden, beherrscht, die (unmittelbar oder mittelbar) rund 94% der Ausgegebenen Aktien und Stimmrechte in der Gesellschaft halten und daher die Finanz- und Geschäftspolitik der Gesellschaft bestimmen können. Nach Abschluss des Angebots werden die Cerberus Aktionäre und die GoldenTree Aktionäre 32,1% bzw. 23,5% der Ausgegebenen Aktien halten (unter Annahme der vollständigen Platzierung der Verbindlichen Aktien (wie unten in C.1 definiert) und einer vollständigen Ausübung der Greenshoe Option (wie unten in E.3 definiert) und Entkonsolidierungsverträgen zur Vermeidung der Beherrschung unterliegen; daher werden die Gesellschaft und die Fonds und Kunden, die bzw. deren Bestände von

		Cerberus (wie unten in C.1 definiert) und von GoldenTree (wie unten in C.1 definiert) verwaltet werden, die Gesellschaft nicht (mehr) beherrschen.
B.7	**Ausgewählte wesentliche historische Finanzinformationen.**	Die folgenden ausgewählten historischen Finanz- und Geschäftsinformationen der BAWAG Gruppe wurden den geprüften deutschen Fassungen der Konzernabschlüssen der Gesellschaft für die am 31. Dezember 2016, 2015 und 2014 endenden Geschäftsjahre (die "**Geprüften Konzernabschlüsse**") sowie der ungeprüften deutschen Fassung des Konzernzwischenabschlusses der Gesellschaft für den am 30. Juni 2017 endenden Sechsmonatszeitraum (der "**Ungeprüfte Konzernzwischenabschluss**" und zusammen mit den Geprüften Konzernabschlüssen, die "**Finanzabschlüsse**") entnommen oder daraus abgeleitet und sollten jeweils im Zusammenhang damit betrachtet werden. Die Geprüften Konzernabschlüsse wurden in Übereinstimmung mit den International Financing Reporting Standards, wie sie in der Europäischen Union anzuwenden sind, ("**IFRS**") erstellt. Sie wurden in Übereinstimmung mit § 59a des Bundesgesetzes über das Bankwesen und den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung durch KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Wien, Österreich und/oder Deloitte Audit Wirtschaftsprüfungs GmbH, Renngasse 1, 1010 Wien, Österreich geprüft, die diese mit uneingeschränkten Bestätigungsvermerken versehen haben. Der Ungeprüfte Konzernzwischenabschluss wurde in Übereinstimmung mit IFRS für Zwischenberichterstattung (IAS 34), wie sie in der Europäischen Union anzuwenden sind, erstellt und wurden gemäß dem International Standard on Review Engagements 2410 von KPMG prüferisch durchgesehen. Aufgrund einer ab 30. Juni 2016 wirksamen Änderung der Geschäftssegmente der BAWAG Gruppe wurden die in diesem Prospekt enthaltenen Finanzinformationen bezüglich der Geschäftssegmente für die am 31. Dezember 2015 und 2014 endenden Geschäftsjahre der neuen, in den Geprüften Konzernabschlüssen der Gesellschaft für das am 31. Dezember 2016 endende Geschäftsjahr verwendeten Struktur der Geschäftssegmente angepasst. Die in diesem Prospekt verwendeten Finanzinformationen bezüglich der Geschäftssegmente für das am 31. Dezember 2015 endende Geschäftsjahr wurden, soweit nicht abweichend angegeben, dem Geprüften Konzernabschluss der Gesellschaft für das am 31. Dezember 2016 endende Geschäftsjahr entnommen. Die in diesem Prospekt verwendeten Finanzinformationen bezüglich der Geschäftssegmente für das am 31. Dezember 2014 endende Geschäftsjahr wurden, soweit nicht abweichend angegeben, den Buchhaltungsunterlagen oder den internen Management-Berichtssystemen der BAWAG Gruppe entnommen, weil die Geprüften Konzernabschlüsse der Gesellschaft für die Geschäftsjahre 2015 und 2014 die neue Struktur der Geschäftssegmente nicht berücksichtigen. Daher sind keine geprüften Finanzinformationen für das Geschäftsjahr 2014 verfügbar, die die neue Struktur der Geschäftssegmente berücksichtigen.

Soweit in diesem Prospekt Finanzinformationen der BAWAG Gruppe als "geprüft" gekennzeichnet sind, wurde diese Information den Geprüften Konzernabschlüssen der Gesellschaft entnommen. Mit der Kennzeichnung "ungeprüft" werden in diesem Prospekt solche Finanzinformationen bezeichnet, die dem Ungeprüften Konzernzwischenabschluss der Gesellschaft oder den Buchhaltungsunterlagen oder den internen Management-Berichtssystemen der BAWAG Gruppe entnommen oder daraus abgeleitet wurden.

Ausgewählte Finanzinformationen der Konzern-Gewinn- und Verlustrechnung

Die folgende Tabelle zeigt ausgewählte Angaben aus der Konzern-Gewinn- und Verlustrechnung der BAWAG Gruppe für die am 30. Juni 2017 und 30. Juni 2016 endenden Sechsmonatszeiträume sowie für die am 31. Dezember 2016, 2015 und 2014 endenden Geschäftsjahre und Finanzinformationen, die aus diesen Abschlüssen abgeleitet wurden:

Gewinn- und Verlustrechnung

	Für den Sechsmonats-zeitraum zum 30. Juni		**Für das zum 31. Dezember endende Geschäftsjahr**		
	2017	**2016**	**2016**	**2015**	**2014**
	(ungeprüft) (in € Million)		**(geprüft, soweit nicht abweichend angegeben) (in € Million)**		
Zinserträge	548,9	528,6[1)]	1.024,4	1.051,3	1.089,9
Zinsaufwendungen	(160,3)	(154,3)	(297,7)	(339,2)	(424,3)[2)]
Dividendenerträge	6,8	2,0	3,3	10,2	9,8
Nettozinsertrag	**395,4**	**376,3**[1)]	**730,0**	**722,3**	**675,4**[2)3)]
Provisionserträge	142,8	140,8	276,3	292,3	302,0
Provisionsaufwendungen	(36,7)	(37,8)	(83,4)	(106,4)	(104,2)
Provisionsüberschuss	**106,1**	**103,0**	**192,9**	**185,9**	**197,8**
Operative Kernerträge	**501,5**	**479,3**[1)]	**922,9**	**908,2**	**873,3**[2)]
Gewinne und Verluste aus finanziellen Vermögenswerten und Schulden	17,3	22,6[1)]	19,1	64,8	35,9[4)5)6)]
Sonstige betriebliche Erträge und Aufwendungen	(24,6)	(29,8)	4,7	(36,4)	(10,3)
davon regulatorische Aufwendungen[9)]	(27,1)	(33,1)	(84,9)	(35,2)	(24,6)
Verwaltungsaufwand	(199,6)	(197,2)	(405,4)	(432,9)	(451,7)[2)7)]
davon regulatorische Aufwendungen[9)]	(1,03)	(0,93)	(2,3)	(1,6)	(4,6)
Planmäßige Abschreibungen auf immaterielle Vermögenswerte und Sachanlagen	(19,1)	(18,9)	(36,2)	(38,9)	(47,6)
Risikokosten	(26,7)	(15,9)	(42,7)	(45,8)	(84,3)[7)]
Anteil am Ergebnis von assoziierten Unternehmen, die nach der Equity-Methode bilanziert werden	1,8	4,3	8,0	(0,5)	0,9
Jahresüberschuss vor Steuern	**250,6**	**244,4**	**470,4**	**418,5**	**316,2**[4)5)]
Steuern vom Einkommen	(47,1)	39,3	13,4	(24,1)	(0,5)
Jahresüberschuss nach Steuern	**203,5**	**283,7**	**483,8**	**394,4**	**315,7**[4)5)]
Davon den nicht beherrschenden Anteilen zurechenbar	0,0	0,2	0,2	0,0	0,7[4)5)8)]
Davon den Eigentümern des Mutterunternehmens zurechenbar	**203,5**	**283,5**	**483,6**	**394,4**	**315,0**[4)5)8)]

1) Die in der obenstehenden Tabelle gezeigten Zinserträge für den zum 30. Juni 2016 endenden Sechsmonatszeitraum beinhalten Abschreibungen sog. Day-One Profits (das ist die bilanziell als Abschlusskosten (*deferred acquisition costs*) ausgewiesene Differenz zwischen dem beizulegenden Zeitwert (fair value) und dem Kaufpreis), die in dem ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2016 endenden Sechsmonatszeitraum unter Gewinne und Verluste aus finanziellen Vermögenswerten und Schulden ausgewiesen wurde. Diese Anpassung steht im Einklang mit anwendbaren Rechnungslegungsvorschriften und wurde vorgenommen, da die Day-One Profits über die Laufzeit der erworbenen Darlehen abgeschrieben werden und die BAWAG Gruppe diese regelmäßige Abschreibungen daher als zinsertragsähnlich begreift und diese Abschreibungen in ihren Abschlüssen entsprechend als Zinserträge reflektiert hat.

2) Der Zinsaufwand wurde an die Gewinn- und Verlustrechnung der BAWAG Gruppe des Geprüften Konzernabschlusses für das Jahr 2015 angepasst. Der in der obigen Tabelle dargestellte Zinsaufwand der BAWAG Gruppe für das Geschäftsjahr 2014 umfasst Rückstellungen für Zinsaufwand für soziales Kapital in Höhe von € 14,8 Millionen, welche in der Gewinn- und Verlustrechnung der BAWAG Gruppe des Geprüften Konzernabschlusses für das Jahr 2014 im Betriebsaufwand aufgenommen wurden. Diese Anpassung wurde gemacht, um den Effekt veränderter Zinssätze auf den Zinsaufwand für soziales Kapital besser wiederzugeben.

3) Die Zahl unterscheidet sich aufgrund von Rundungsdifferenzen von der Segmentberichterstattung des Geprüften Konzernabschlusses für das Geschäftsjahr 2015.

4) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).

5) Die in der obigen Tabelle dargestellten Gewinne und Verluste der BAWAG Gruppe aus Finanzinstrumenten für das Geschäftsjahr 2014 klammern die Minderheitsaktionären zuzuordnenden Bewertungsergebnisse in Höhe von € 2,8 Millionen aus, welche in diesem Posten in der Gewinn- und Verlustrechnung der BAWAG Gruppe der Geprüften Konzernabschlüsse für die Geschäftsjahre 2015 und 2014 aufgenommen wurden.

6) Die Zahl unterscheidet sich aufgrund von Rundungsdifferenzen von der Segmentberichterstattung der Geprüften Konzernabschlüsse für die Geschäftsjahre 2015 und 2014.
7) Die Zahlen wurden an die Gewinn- und Verlustrechnung der BAWAG Gruppe des Geprüften Konzernabschlusses für das Jahr 2015 angepasst. Die in der obigen Tabelle dargestellten Risikokosten der BAWAG Gruppe für das Geschäftsjahr 2014 umfassen Rückstellungen und Aufwendungen für operationelle Risiken in Höhe von € 7,2 Millionen, welche in der Gewinn- und Verlustrechnung der BAWAG Gruppe und der Segmentberichterstattung des Geprüften Konzernabschlusses für das Geschäftsjahr 2014 im Betriebsaufwand aufgenommen wurden.
8) Der den nicht herrschenden Anteilen zurechenbare Gewinn nach Steuern wurde angepasst, um eine bessere Vergleichbarkeit mit den Zahlen für die Geschäftsjahre 2016 und 2015 zu erreichen. Der den nicht beherrschenden Anteilen zurechenbare Gewinn nach Steuern für die BAWAG Gruppe klammert an Minderheitsaktionäre ausgezahlte Dividenden in Höhe von € 6,8 Millionen aus, welche in diesem Posten in der Gewinn- und Verlustrechnung der Geprüften Konzernabschlüsse für die Geschäftsjahre 2015 und 2014 aufgenommen wurden.
9) In Übereinstimmung mit IFRS werden bestimmte regulatorische Aufwendungen, wie etwa Bankenabgaben, Beiträge zum Einlagensicherungssystem und zum einheitlichen Abwicklungsfonds zum Einzahlungsfonds, als sonstige betriebliche Erträge und Aufwendungen qualifiziert, wohingegen andere regulatorische Aufwendungen, wie etwa Aufsichtskosten, als "Verwaltungsaufwand" qualifiziert werden.

Quelle: Finanzberichte der BAWAG Gruppe.

Ausgewählte Finanzinformationen aus der Konzern-Bilanz

Die folgende Tabelle zeigt ausgewählte Angaben aus der Konzern-Bilanz der BAWAG Gruppe zum 30. Juni 2017 sowie zum 31. Dezember 2016, 2015 und 2014:

Gesamtaktiva

	Zum 30. Juni	Zum 31. Dezember		
	2017	**2016**	**2015**	**2014**
	(ungeprüft) (in € Millionen)	**(geprüft, soweit nicht abweichend angegeben) (in € Millionen)**		
Barreserve	887	1.020	809	684
Erfolgswirksam zum beizulegenden Zeitwert bewertete finanzielle Vermögenswerte	191	202	303	450
Zur Veräußerung verfügbare finanzielle Vermögenswerte	3.043	3.209	2.745	3.859
Bis zur Endfälligkeit gehaltene Finanzinvestitionen	2.319	2.353	2.290	2.042
Handelsaktiva	510	652	950	1.163
Kredite und Forderungen	31.445	30.821	27.396	25.280
Kunden	28.003	28.494	24.713	21.779
Wertpapiere	1.325	692	973	1.983
Kreditinstitute	2.117	1.635	1.710	1.518
Sicherungsderivate	590	677	469	546
Sachanlagen	49	53	59	81[1)]
Vermietete Grundstücke und Gebäude	4	3	4	3[1)]
Geschäfts- und Firmenwerte	58	58	58	58
Markenname und Kundenstock	171	174	168	174
Software und andere immaterielle Vermögenswerte	141	128	103	102
Steueransprüche für laufende Steuern	6	10	20	7
Steueransprüche für latente Steuern	163	203	190	193
At-equity bewertete Beteiligungen	42	45	43	44
Sonstige Vermögenswerte	97	135	92	100
Langfristige Vermögenswerte und Veräußerungsgruppen, die zur Veräußerung gehalten werden	–	–	9	68
Summe Aktiva	**39.716**	**39.743**	**35.708**	**34.854**

1) Die Zahlen wurden der Bilanz des Geprüften Konzernabschlusses für das Geschäftsjahr 2015 entnommen. Da Anlageimmobilien darin als separater Posten aufgeführt sind, weicht die Zahl für Sachanlagen von der im Geprüften Konzernabschluss für das Geschäftsjahr 2014 veröffentlichten Zahl ab.

Quelle: Finanzberichte der BAWAG Gruppe.

Gesamtpassiva

	Zum 30. Juni	Zum 31. Dezember		
	2017	2016	2015	2014
	(ungeprüft) (in € Millionen)	(geprüft, soweit nicht abweichend angegeben) (in € Millionen)		
Verbindlichkeiten				
Erfolgswirksam zum beizulegenden Zeitwert bewertete finanzielle Verbindlichkeiten	847	1.115	1.269	1.675
Handelspassiva	405	617	1.071	1.174
Finanzielle Verbindlichkeiten zu fortgeführten Anschaffungskosten	33.816	32.962	28.514	27.985
Kunden	25.359	25.998	21.692	21.127
Begebene Schuldverschreibungen, Nachrang- und Ergänzungskapital	5.120	4.900	3.236	4.438
Kreditinstitute	3.337	2.064	3.586	2.420
Finanzielle Verbindlichkeiten aus Vermögensübertragungen	-	300	621	-
Bewertungsanpassungen für gegen Zinsrisiken abgesicherte Portfolien	135	223	169	196
Sicherungsderivate	140	260	106	160
Rückstellungen	366	404	419	522
Steuerschulden für laufende Steuern	21	19	6	1
Steuerschulden für latente Steuern	33	27	-	4
Sonstige Verbindlichkeiten	604	680	576	512
Verbindlichkeiten in Veräußerungsgruppen, die zur Veräußerung gehalten werden	-	-	0	6
Gesamtkapital	**3.349**	**3.136**	**2.957**	**2.619**
Eigenkapital den Eigentümern des Mutterunternehmens zurechenbar	3.348	3.134	2.956	2.619
Nicht beherrschende Anteile	1	2	1	-
Summe Passiva	**39.716**	**39.743**	**35.708**	**34.854**

Quelle: Finanzberichte der BAWAG Gruppe.

Ausgewählte Finanzinformationen aus der Konzern-Kapitalflussrechnung

Die folgende Tabelle zeigt ausgewählte Angaben aus der Konzern-Kapitalflussrechnung der BAWAG Gruppe für die am 30. Juni 2017 und 30. Juni 2016 endenden Sechsmonatszeiträume sowie für die am 31. Dezember 2016, 2015 und 2014 endenden Geschäftsjahre:

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014
	(ungeprüft) (in € Millionen)		(geprüft) (in € Millionen)		
Zahlungsmittelbestand zum Ende der Vorperiode	**1.020**	**809**	**809**	**684**	**481**
Cashflow aus operativer Geschäftstätigkeit	(264)	(34)	1.129	(283)	726
Cashflow aus Investitionstätigkeit	145	(235)	(575)	853	(171)
Cashflow aus Finanzierungstätigkeit	(14)	(7)	(343)	(445)	(352)
Zahlungsmittelbestand zum Ende der Periode	**887**	**533**	**1.020**	**809**	**684**

Quelle: Finanzberichte der BAWAG Gruppe.

Andere ausgewählte Finanzdaten

Andere ausgewählte Finanzdaten der BAWAG Gruppe

Die Kennzahlen für die BAWAG Gruppe können wie folgt zusammengefasst werden:

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen ausgenommen Prozentangaben)		
Nettozinsertrag	395,4	376,3[1]	730,0	722,3	675,4[2][3]
Provisionsüberschuss	106,1	103,0	192,9	185,9	197,8
Operative Kernerträge	501,5	479,3[1]	922,9	908,2	873,3[3]
Operative Erträge	521,2	505,1	990,5	971,8	923,6[3]
Operative Aufwendungen[5]	(217,6)	(215,2)	(439,3)	(470,1)	(494,7)[3][4][6][7]
Risikokosten	(26,7)	(15,9)	(42,7)	(45,8)	(84,3)[7]
Periodengewinn vor Steuern	250,6	244,4	470,4	418,5	316,2[4][8]
Nettogewinn	203,5	283,5	483,6	394,4	315,0[4][9]
RoE[4][17]	12,6%	19,3%	15,9%	14,1%[10]	13,0%[9]
RoE (@12% CET1)[4][17]	14,7%[19]	20,9%[19]	16,9%[19]	14,4%[19]	12,0%[9]
RoTE[4][17]	14,2%	21,8%	17,9%	16,1%	15,3%[9]
RoTE (@12% CET1)[4][17]	16,9%[19]	23,9%[19]	19,2%[19]	16,3%[19]	14,0%[9]
Return on Risk-Weighted Assets[4][18]	2,19%[19]	3,35%[19]	2,65%[19]	2,30%[19]	1,92%[9]
Return on Total Assets[18]	1,02%[11]	1,61%[11]	1,22%	1,10%	0,88%[4][9]
Nettozinsmarge[4]	2,23%	2,38%[1][12]	2,31%	2,35%[12]	2,14%[12][13]
Cost/Income Ratio[4][5][17]	41,7%	42,6%	44,4%	48,4%	53,6%
Risikokosten / Kredite und Forderungen[4]	0,17%	0,12%	0,15%	0,17%	0,32%
NPL Ratio[4]	1,9%	2,0%[14]	1,7%[13]	1,9%[14]	2,0%[14]
CET1-Quote (Vollumsetzung)[17]	15,5%[19]	14,5%[19]	13,6%[19]	12,3%[15][19]	12,2%
Leverage Ratio (Vollumsetzung)[4]	7,0%	6,6%	6,5%	6,5%	5,7%
Liquidity coverage ratio (LCR)[16]	146%	141%	138%	137%	134%
Gesamtkapitalquote (Vollumsetzung)[4]	18,1%[19]	17,3%[19]	16,2%[19]	15,0%[15][19]	15,9%

1) Die in der obenstehenden Tabelle gezeigten Zinserträge für den zum 30. Juni 2016 endenden Sechsmonatszeitraum beinhalten Abschreibungen sog. Day-One Profits (das ist die bilanziell als Abschlusskosten (*deferred acquisition costs*) ausgewiesene Differenz zwischen dem beizulegenden Zeitwert (fair value) und dem Kaufpreis), die in dem ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2016 endenden Sechsmonatszeitraum unter Gewinne und Verluste aus finanziellen Vermögenswerten und Schulden ausgewiesen wurde. Diese Anpassung steht im Einklang mit anwendbaren Rechnungslegungsvorschriften und wurde vorgenommen, da die Day-One Profits über die Laufzeit der erworbenen Darlehen abgeschrieben werden und die BAWAG Gruppe diese regelmäßige Abschreibungen daher als zinsertragsähnlich begreift und diese Abschreibungen in ihren Abschlüssen entsprechend als Zinserträge reflektiert hat.

2) Die Zahlen unterscheiden sich aufgrund von Rundungsdifferenzen von der Segmentberichterstattung des Geprüften Konzernabschlusses für das Geschäftsjahr 2015.

3) Der in der obigen Tabelle dargestellte Nettozinsertrag für die BAWAG Gruppe für das Geschäftsjahr 2014 umfasst Rückstellungen für Zinsaufwand für soziales Kapital in Höhe von € 14,8 Millionen, welche in der Gewinn- und Verlustrechnung der BAWAG Gruppe des Geprüften Konzernabschlusses für das Geschäftsjahr 2014 im Betriebsaufwand aufgenommen wurden. Diese Anpassung wurde gemacht, um den Effekt veränderter Zinssätze auf den Zinsaufwand für soziales Kapital besser wiederzugeben.

4) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).

5) Die Zahlen für den Betriebsaufwand umfassen nicht bestimmte regulatorische Gebühren, die anderweitig in dem im Geprüften Konzernabschluss auf der Ebene der BAWAG Gruppe vorgetragenen Posten sonstiger betrieblicher Erträge und Aufwendungen aufgenommen wurden. Folglich werden diese regulatorischen Gebühren bei der Berechnung des Aufwand-Ertrags-Verhältnisses nicht berücksichtigt.

6) Der in der obigen Tabelle dargestellte Betriebsaufwand der BAWAG Gruppe für das Geschäftsjahr 2014 klammert Gebühren von Aufsichtsbehörden in Höhe von € 4,6 Millionen aus, welche zu den regulatorischen Gebühren verschoben wurden, aber in der Segmentberichterstattung des Geprüften Konzernabschlusses für das Geschäftsjahr 2015 im Betriebsaufwand aufgenommen wurden.

7) Die gesamten Risikokosten wurden an den Konzernabschluss für das Geschäftsjahr 2015 angepasst. Die in der Tabelle dargestellten gesamten Risikokosten der BAWAG Gruppe für das Geschäftsjahr 2014 umfassen Rückstellungen und Aufwendungen für operationelle Risiken in Höhe von € 7,2 Millionen, welche in der Gewinn- und Verlustrechnung der Segmentberichterstattung des Geprüften Konzernabschlusses für das Geschäftsjahr 2014 im Betriebsaufwand aufgenommen wurden.

8) Der in der obigen Tabelle dargestellte Gewinn vor Steuern der BAWAG Gruppe für das Geschäftsjahr 2014 klammert die Minderheitsaktionären zuzuordnenden Bewertungsergebnisse in Höhe von € 2,7 Millionen aus, die in diesem Posten in der Gewinn- und Verlustrechnung der Geprüften Konzernabschlüsse für die Geschäftsjahre 2015 und 2014 aufgenommen wurden.
9) Die Zahlen wurden angepasst, um eine bessere Vergleichbarkeit mit den Zahlen für die Geschäftsjahre 2016 und 2015 zu gewährleisten. Der Bilanzgewinn der BAWAG Gruppe für das Geschäftsjahr 2014 in Höhe von € 308,2 Millionen klammert an Minderheitsaktionäre ausgezahlte Dividenden in Höhe von € 6,8 Millionen aus, welche in diesem Posten in der Gewinn- und Verlustrechnung der Geprüften Konzernabschlüsse für die Geschäftsjahre 2015 und 2014 aufgenommen wurden.
10) Die Zahl unterscheidet sich aufgrund von Rundungsdifferenzen vom Lagebericht des konsolidierten Geschäftsberichts für das Geschäftsjahr 2015.
11) Die Zahlen wurden auf Jahresbasis umgerechnet, um eine bessere Vergleichbarkeit zu den Zahlen für die Geschäftsjahre 2016, 2015 und 2014 herzustellen.
12) Die Zahl für den zum 30. Juni 2016 endenden Sechsmonatszeitraum wurde gemäß dem Ungeprüfte Konzernzwischenabschluss für den zum 30. Juni 2016 endenden Sechsmonatszeitraum angepasst und die Zahlen für die Geschäftsjahre 2015 und 2014 wurden an den konsolidierten Geschäftsbericht für das Geschäftsjahr 2016 angepasst, um eine Änderung des für das Verhältnis maßgeblichen Nenners von den durchschnittlichen Gesamtaktiva hin zu den durchschnittlichen zinstragenden Aktiva zu reflektieren.
13) Die angepasste Zahl wurde den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
14) Die Zahlen wurden angepasst, um dem Ungeprüften Konzernzwischenabschluss für den am 30. Juni 2017 endenden Sechsmonatszeitraum zu entsprechen und Änderungen der Definition zum Anteil notleidender Kredite wiederzugeben.
15) Die Zahlen wurden an das Kapitalmanagement im Geprüften Konzernabschluss für das Geschäftsjahr 2016 angepasst und reflektieren die Neubestimmung der Kundenbindung.
16) Die Zahl wurde den Buchhaltungsunterlagen oder internen Managementberichtssystemen von PSH entnommen (ungeprüft) und basiert auf Werten der PSH-Gruppe.
17) Die folgende Tabelle enthält die Definition bestimmter Kennzahlen der BAWAG Gruppe:

Kennzahl	**Definition**
Return on Equity ("RoE")	Wird berechnet, indem der Nettogewinn durch das durchschnittliche Eigenkapital, das den Eigentümern des Mutterunternehmens zurechenbar ist ("**IFRS-Eigenkapital**") geteilt wird. Das durchschnittliche IFRS-Eigenkapital wird berechnet, indem die Endwerte der laufenden und der vorangehenden Periode addiert werden und die Summe durch zwei geteilt wird
RoE (@12% CET1) ("RoE (@12% CET1)")	RoE, das unter der Annahme einer harten Kernkapitalquote (wie in der CRR definiert) von 12% berechnet wird, wobei für die Ermittlung des harten Kernkapitals ("**CET1**") nur übergangsweise anerkannte Kapitalbestandteilen außer Acht gelassen werden ("**Vollumsetzung**")
Return on Tangible Equity ("RoTE")	Wird berechnet, indem der der Nettogewinn durch das durchschnittliche IFRS-Eigenkapital verringert um den Buchwert der in den Finanzabschlüssen ausgewiesenen immateriellen Vermögenswerte ("**IFRS Tangible Equity**") geteilt wird. Das durchschnittliche IFRS Tangible Equity wird berechnet, indem die Endwerte der laufenden und der vorangehenden Periode addiert werden und die Summe durch zwei geteilt wird
RoTE (@12% CET1) ("RoTE (@12% CET1)")	RoTE, das unter der Annahme einer CET1-Quote (Vollumsetzung) von 12% berechnet wird
Nettozinsmarge ("Nettozinsmarge")	Wird berechnet, indem der Nettozinsertrag durch die durchschnittlichen zinstragenden Aktiva geteilt wird. Zum Jahresende 2016 wurde der Nenner von durchschnittlicher Bilanzsumme auf durchschnittliche zinstragende Aktiva geändert.
Cost/Income Ratio ("Cost/Income Ratio")	Wird berechnet, indem die operativen Aufwendungen durch die operativen Erträge geteilt werden

18) "Return" auf Basis des Nettogewinns berechnet.

19) Die Zahlen sind ungeprüft und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen aufgrund einer Vor-Ort-Prüfung im Auftrag der EZB Anfang 2017 für die Vergangenheit angepasst, die eine fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften im Hinblick auf zwei wohnwirtschaftliche Hypothekenkreditportfolien der easygroup festgestellt hat. Dies führte zu einer Erhöhung der damit verbundenen risikogewichteten Aktiva (*Risk-Weighted Assets*). Weitere Informationen zu den angepassten Zahlen befinden sich unter "*Andere ausgewählte Finanzdaten per Segment*" und Informationen im Zusammenhang mit der Vor-Ort-Prüfung unter "*Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.*". Die folgenden Tabellen zeigen die ursprünglich berichteten Zahlen und deren jeweilige Anpassungen:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE (@12% CET1)[4]	15,7%	14,7%	(1,0)
RoTE (@12% CET1)[4]	18,3%	16,9%	(1,4)
Return on risk-weighted assets[4]	2,39%	2,19%	(0,20)
CET1-Quote (Vollumsetzung)	16,5%	15,5%	(1,0)
Gesamtkapitalquote (Vollumsetzung)[4]	19,3%	18,1%	(1,2)

	Für den Sechsmonatszeitraum zum 30. Juni 2016		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE (@12% CET1)[4]	21,7%	20,9%	(0,8)
RoTE (@12% CET1)[4]	24,9%	23,9%	(1,0)
Return on risk-weighted assets[4]	3,52%	3,35%	(0,17)
CET1-Quote (Vollumsetzung)	15,1%	14,5%	(0,6)
Gesamtkapitalquote (Vollumsetzung)[4]	18,1%	17,3%	(0,8)

	Für das zum 31. Dezember 2016 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE (@12% CET1)[4]	17,9%	16,9%	(1,0)
RoTE (@12% CET1)[4]	20,5%	19,2%	(1,3)
Return on risk-weighted assets[4]	2,87%	2,65%	(0,22)
CET1-Quote (Vollumsetzung)	15,1%	13,6%	(1,5)
Gesamtkapitalquote (Vollumsetzung)[4]	18,0%	16,2%	(1,8)

	Für das zum 31. Dezember 2015 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE (@12% CET1)[4]	14,7%	14,4%	(0,3)
RoTE (@12% CET1)[4]	16,7%	16,3%	(0,4)
Return on risk-weighted assets[4]	2,37%	2,30%	(0,07)
CET1-Quote (Vollumsetzung)	12,9%	12,3%	(0,6)
Gesamtkapitalquote (Vollumsetzung)[4]	15,8%	15,0%	(0,8)

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

Andere ausgewählte Finanzdaten per Segment

Die folgenden Tabellen zeigen bestimmte wichtige Finanzkennzahlen für die Segmente der BAWAG Gruppe für die Berichtszeiträume:

BAWAG P.S.K. Retail

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	**2016**	**2016**	**2015**	**2014**[1]
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen ausgenommen Prozentangaben)		
Nettozinsertrag	197,5	169,4	352,3	331,4	361,3
Provisionsüberschuss	82,3	74,6	141,1	135,9	153,1
Operative Kernerträge	279,8	244,0	493,4	467,3	514,4
Operative Erträge	281,7	245,8	495,7	474,9	516,8
Operative Aufwendungen	(134,4)	(136,0)	(273,5)	(303,2)	(345,5)
Risikokosten	(16,5)	(17,3)	(40,8)	(33,9)	(40,1)
Jahresüberschuss vor Steuern (= Nettogewinn)	116,5	80,1	169,1	131,5	131,2
RoE[1]	23,7%[8]	19,3%[8]	19,2%[8]	16,5%[8]	19,0%
RoE (@12% CET1)[1]	27,7%[8]	20,9%[8]	20,4%[8]	16,8%[8]	17,1%
Return on Risk-Weighted Assets[1)5)]	5,23%	4,21%	4,09%	3,37%[2]	3,35%
Nettozinsmarge[1]	3,38%	3,67%[3]	3,72%	3,56%	3,91%
Cost/Income Ratio[1]	47,7%	55,3%	55,2%	63,8%	66,8%
Risikokosten / Kredite und Forderungen[1]	0,28%	0,38%	0,39%	0,37%	0,44%
NPL ratio[1]	2,1%	2,4%	2,0%[4]	2,4%[4]	2,9%
Aktiva	11.632	9.256	11.659	9.178	9.201
Risikogewichtete Aktiva	4.471	3.785	4.432	3.827	3.981
Kundeneinlagen[1)6)]	17.932	15.597	18.058	15.663	15.881
Eigene Emissionen[1)7)]	2.924	2.561	2.990	2.122	2.435

1) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
2) Die angepasste Zahl wurde den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
3) Die Zahl wurde gemäß dem Ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2017 endenden Sechsmonatszeitraums angepasst, um eine Änderung des für das Verhältnis maßgeblichen Nenners von den durchschnittlichen Gesamtaktiva hin zu den durchschnittlichen zinstragenden Aktiva zu reflektieren.
4) Die Zahlen wurden angepasst, um dem Ungeprüften Konzernzwischenabschluss für den am 30. Juni 2017 endenden Sechsmonatszeitraum zu entsprechen und Änderungen der Definition von zum Anteil notleidender Kredite wiederzugeben.
5) "Return" auf Basis des Nettogewinns berechnet.
6) Kundeneinlagen sind Einlagen von Privatkunden, Geschäftskunden und institutionellen Kunden.
7) Von der BAWAG Gruppe begebene Schuldtitel.
8) Die Zahlen sind ungeprüft und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen aufgrund einer Vor-Ort-Prüfung im Auftrag der EZB Anfang 2017 für die Vergangenheit angepasst, die eine fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften im Hinblick auf zwei wohnwirtschaftliche Hypothekenkreditportfolien der easygroup festgestellt hat. Dies führte zu einer Erhöhung der damit verbundenen risikogewichteten Aktiva (*Risk-Weighted Assets*). Auf Segmentebene resultierte daraus eine rückwirkende Erhöhung der risikogewichteten Aktiva (*Risk-Weighted Assets*) und eine Verringerung der Erträge auf das Eigenkapital (RoE) sowie der Erträge auf die risikogewichteten Aktiva (*Return on Risk-Weighted Assets*) in der easygroup; in den anderen Segmente führte dies jedoch in einigen Fällen auf Grundlage entsprechender Anpassungen in der Kapitalallokation zu einer Verbesserung der Leistungskennzahlen, insbesondere der Erträge auf das Eigenkapital (RoE). Weitere Informationen zu der Vor-Ort-Prüfung finden sich unter "*Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.*". Die folgenden Tabellen zeigen die ursprünglich berichteten Zahlen und deren jeweilige Anpassungen:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE[1]	22,7%	23,7%	1,0
RoE (@12% CET)[1]	28,4%	27,7%	0,7

	Für den Sechsmonatszeitraum zum 30. Juni 2016		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	18,8%	19,3%	0,5
RoE (@12% CET)[1]	21,2%	20,9%	0,3

	Für das zum 31. Dezember 2016 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	18,4%	19,2%	0,8
RoE (@12% CET)[1]	20,9%	20,4%	0,5

	Für das zum 31. Dezember 2015 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	16,3%	16,5%	0,2
RoE (@12% CET)[1]	16.9%	16.8%	(0.1)

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

easygroup

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014[1]
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen ausgenommen Prozentangaben)		
Nettozinsertrag	78,3	60,2[2]	115,8	57,1	31,0
Provisionsüberschuss	5,4	4,6	10,1	8,1	8,3
Operative Kernerträge	83,7	64,8[2]	125,9	65,2	39,3
Operative Erträge	83,2	64,9	124,5	65,3	42,3
Operative Aufwendungen	(15,8)	(15,7)	(30,6)	(23,4)	(23,2)
Risikokosten	5,7	(2,1)	(4,8)	0,1	(1,4)
Jahresüberschuss vor Steuern (= Nettogewinn)	70,7	44,6	86,7	42,0	17,7
Return on Equity[1]	25,7%[8]	22,1%[8]	17,8%[8]	17,6%[8]	28,1%
RoE (@12% CET1)[1]	29,9%[8]	23,9%[8]	19,0%[8]	17,8%[8]	25,5%
Return on Risk-Weighted Assets[1)6)]	3,70%[8]	3,30%[8]	2,45%[8]	2,61%[3)8)]	5,23%
Nettozinsmarge[1]	3,67%	3,54%[2)4)]	3,46%	7,32%	9,10%
Cost/Income Ratio[1]	19,0%	24,2%	24,6%	35,9%	54,7%
Risikokosten / Kredite und Forderungen[1)7)]	(0,27)%	0,12%	0,12%	0,00%	0,40%
NPL ratio[1]	2,9	3,0%[5]	2,0%[5]	1,9%[5]	0,5%
Aktiva	4.102	3.247	4.458	3.644	378
Risikogewichtete Aktiva	3.399[8]	2.594[8]	4.249[8]	2.817[8]	405
Kundeneinlagen[1]	3.761	3.673	3.893	3.204	2.864
Eigene Emissionen[1]	496	0	585	0	0

1) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).

2) Die in der obenstehenden Tabelle gezeigten Zinserträge für den zum 30. Juni 2016 endenden Sechsmonatszeitraum beinhalten Abschreibungen sog. Day-One Profits (das ist die bilanziell als Abschlusskosten (*deferred acquisition costs*) ausgewiesene Differenz zwischen dem beizulegenden Zeitwert (fair value) und dem Kaufpreis), die in dem ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2016 endenden Sechsmonatszeitraum unter Gewinne und Verluste aus finanziellen Vermögenswerten und Schulden ausgewiesen wurde. Diese Anpassung steht im Einklang mit anwendbaren Rechnungslegungsvorschriften und wurde vorgenommen, da die Day-One Profits über die Laufzeit der erworbenen Darlehen abgeschrieben werden und die BAWAG Gruppe diese regelmäßige Abschreibungen daher als zinsertragsähnlich begreift und diese Abschreibungen in ihren Abschlüssen entsprechend als Zinserträge reflektiert hat.

3) Die angepasste Zahl wurde den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
4) Die Zahl wurde gemäß dem Ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2017 endenden Sechsmonatszeitraums angepasst, um eine Änderung des für das Verhältnis maßgeblichen Nenners von den durchschnittlichen Gesamtaktiva hin zu den durchschnittlichen zinstragenden Aktiva zu reflektieren.
5) Die Zahlen wurden angepasst, um dem Ungeprüften Konzernzwischenabschluss für den am 30. Juni 2017 endenden Sechsmonatszeitraum zu entsprechen und Änderungen der Definition zum Anteil notleidender Kredite wiederzugeben.
6) "Return" auf Basis des Nettogewinns berechnet.
7) Verhältnis von Rückstellungen und Risikovorsorge, Wertminderungsaufwendungen und operationellen Risiken (Gesamtrisikokosten) auf den Durchschnitt der Kredite und Forderungen (einschließlich Rückstellungen).
8) Die Zahlen sind ungeprüft und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen aufgrund einer Vor-Ort-Prüfung im Auftrag der EZB Anfang 2017 für die Vergangenheit angepasst, die eine fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften im Hinblick auf zwei wohnwirtschaftliche Hypothekenkreditportfolien der easygroup festgestellt hat. Dies führte zu einer Erhöhung der damit verbundenen risikogewichteten Aktiva (*Risk-Weighted Assets*). Auf Segmentebene resultierte daraus eine rückwirkende Erhöhung der risikogewichteten Aktiva (*Risk-Weighted Assets*) und eine Verringerung der Erträge auf das Eigenkapital (RoE) sowie der Erträge auf die risikogewichteten Aktiva (*Return on Risk-Weighted Assets*) in der easygroup; in den anderen Segmente führte dies jedoch in einigen Fällen auf Grundlage entsprechender Anpassungen in der Kapitalallokation zu einer Verbesserung der Leistungskennzahlen, insbesondere der Erträge auf das Eigenkapital (RoE). Weitere Informationen zu der Vor-Ort-Prüfung finden sich unter "*Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.*". Die folgenden Tabellen zeigen die ursprünglich berichteten Zahlen und deren jeweilige Anpassungen:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung**
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben, soweit nicht abweichend angegeben)		
RoE[1]	34,7%	25,7%	(9,0) PP
RoE (@12% CET)[1]	43,2%	29,9%	(13,3) PP
Return on risk-weighted assets[1]	6,12%	3,70%	(2,42) PP
Risk-weighted assets	2.278	3.399	1.121

	Für den Sechsmonatszeitraum zum 30. Juni 2016		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung**
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben, soweit nicht abweichend angegeben)		
RoE[1]	27,7%	22,1%	(5,6) PP
RoE (@12% CET)[1]	31,2%	23,9%	(7,3) PP
Return on risk-weighted assets[1]	4,76%	3,30%	(1,46) PP
Risk-weighted assets	1.849	2.594	745

	Für das zum 31. Dezember 2016 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung**
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben, soweit nicht abweichend angegeben)		
RoE[1]	24,1%	17,8%	(6,3) PP
RoE (@12% CET)[1]	27,4%	19,0%	(8,4) PP
Return on risk-weighted assets[1]	4,09%	2,45%	(1,64) PP
Risk-weighted assets	2.346	4.249	1.903

	Für das zum 31. Dezember 2015 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung**
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben, soweit nicht abweichend angegeben)		
RoE[1]	21,5%	17,6%	(3,9) PP
RoE (@12% CET)[1]	22,6%	17,8%	(4,8) PP
Return on risk-weighted assets[1]	3,65%	2,61%	(1,04) PP
Risk-weighted assets	1.897	2.817	920

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

DACH Corporates & Public Sector

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014[1]
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen ausgenommen Prozentangaben)		
Nettozinsertrag	31,9	40,3	79,5	99,4	112,5
Provisionsüberschuss	19,8	20,1	39,7	39,2	41,3
Operative Kernerträge	51,7	60,4	119,2	138,6	153,9
Operative Erträge	53,4	60,3	120,2	143,7	155,9
Operative Aufwendungen	(20,9)	(25,7)	(53,6)	(56,8)	(59,3)
Risikokosten	5,5	1,4	4,4	(6,4)	(34,8)
Jahresüberschuss vor Steuern (= Nettogewinn)	38,0	36,0	71,0	80,5	61,8
Return on Equity[1]	14,7%[5]	13,9%[5]	13,8%[5]	15,3%[5]	12,7%
RoE (@12% CET1)[1]	17,2%[5]	15,1%[5]	14,6%[5]	15,5%[5]	11,4%
Return on Risk-Weighted Assets[1)4)]	2,73%	2,41%	2,37%	2,27%	1,52%
Nettozinsmarge[1]	0,81%	1,05%[2]	1,05%	1,18%	1,30%
Cost/Income Ratio[1]	39,1%	42,6%	44,6%	39,5%	38,0%
Risikokosten / Kredite und Forderungen[1]	(0,14)%	(0,04%)	(0,06)%	0,08%	0,37%
NPL ratio[1]	0,9%	1,3%[3]	0,9%[3]	1,3%[3]	1,6%
Aktiva	7.958	7.437	7.812	7.527	8.933
Risikogewichtete Aktiva	2.649	2.893	2.916	3.087	4.014
Kundeneinlagen (inkl. sonstiger Refinanzierung)[1]	6.115	3.759	5.284	5.568	5.393
Eigene Emissionen[1]	697	200	202	203	213

1) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).

2) Die Zahl wurde gemäß dem Ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2017 endenden Sechsmonatszeitraums angepasst, um eine Änderung des für das Verhältnis maßgeblichen Nenners von den durchschnittlichen Gesamtaktiva hin zu den durchschnittlichen zinstragenden Aktiva zu reflektieren.

3) Die Zahlen wurden angepasst, um dem Ungeprüften Konzernzwischenabschluss für den am 30. Juni 2017 endenden Sechsmonatszeitraum zu entsprechen und Änderungen der Definition zum Anteil notleidender Kredite wiederzugeben.

4) "Return" auf Basis des Nettogewinns berechnet.

5) Die Zahlen sind ungeprüft und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen aufgrund einer Vor-Ort-Prüfung im Auftrag der EZB Anfang 2017 für die Vergangenheit angepasst, die eine fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften im Hinblick auf zwei wohnwirtschaftliche Hypothekenkreditportfolien der easygroup festgestellt hat. Dies führte zu einer Erhöhung der damit verbundenen risikogewichteten Aktiva (*Risk-Weighted Assets*). Auf Segmentebene resultierte daraus eine rückwirkende Erhöhung der risikogewichteten Aktiva (*Risk-Weighted Assets*) und eine Verringerung der Erträge auf das Eigenkapital (RoE) sowie der Erträge auf die risikogewichteten Aktiva (*Return on Risk-Weighted Assets*) in der easygroup; in den anderen Segmente führte dies jedoch in einigen Fällen auf Grundlage entsprechender Anpassungen in der Kapitalallokation zu einer Verbesserung der Leistungskennzahlen, insbesondere der Erträge auf das Eigenkapital (RoE). Weitere Informationen zu der Vor-Ort-Prüfung finden sich unter "*Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.*". Die folgenden Tabellen zeigen die ursprünglich berichteten Zahlen und deren jeweilige Anpassungen:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	14,0%	14,7%	0,7
RoE (@12% CET)[1]	17,4%	17,2%	(0,2)

	Für den Sechsmonatszeitraum zum 30. Juni 2016		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	13,5%	13,9%	0,4
RoE (@12% CET)[1]	15,1%	15,1%	0

	Für das zum 31. Dezember 2016 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	13,1%	13,8%	0,7
RoE (@12% CET)[1]	14,8%	14,6%	(0,2)

	Für das zum 31. Dezember 2015 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	15,0%	15,3%	0,3
RoE (@12% CET)[1]	15,6%	15,5%	(0,1)

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

International Business

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014[1]
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen ausgenommen Prozentangaben)		
Nettozinsertrag	65,4	67,8	134,0	142,2	100,2
Provisionsüberschuss	0,0	0,0	(0,1)	0,0	1,1
Operative Kernerträge	65,4	67,8	133,9	142,2	101,4
Operative Erträge	64,9	66,1	131,1	136,2	102,8
Operative Aufwendungen	(15,0)	(13,3)	(29,9)	(25,7)	(21,7)
Risikokosten	(15,5)	3,0	1,2	0,2	0,3
Jahresüberschuss vor Steuern (= Nettogewinn)	34,4	55,8	102,4	110,7	81,4
Return on Equity[1]	12,8%[4]	20,3%[4]	18,8%[4]	19,9%[4]	21,0%
RoE (@12% CET1)[1]	14,9%[4]	21,9%[4]	19,9%[4]	20,2%[4]	19,5%
Return on Risk-Weighted Assets[1][3]	1,66%	2,64%	2,34%	2,53%	2,14%
Nettozinsmarge[1]	2,45%	2,52%[2]	2,55%	2,64%	2,07%
Cost/Income Ratio[1]	23,1%	20,1%	22,8%	18,9%	21,1%
Risikokosten / Kredite und Forderungen[1]	0,60%	(0,12)%	(0,02)%	0,00%	(0,01)%
NPL ratio[1]	0,9%	0,0%	0,0%	0,0%	0,1%
Aktiva	5.130	5.040	5.634	5.748	5.009
Risikogewichtete Aktiva	4.099	3.890	4.169	4.565	4.185

1) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
2) Die Zahl wurde gemäß dem Ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2017 endenden Sechsmonatszeitraums angepasst, um eine Änderung des für das Verhältnis maßgeblichen Nenners von den durchschnittlichen Gesamtaktiva hin zu den durchschnittlichen zinstragenden Aktiva zu reflektieren.
3) "Return" auf Basis des Nettogewinns berechnet.

4) Die Zahlen sind ungeprüft und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen aufgrund einer Vor-Ort-Prüfung im Auftrag der EZB Anfang 2017 für die Vergangenheit angepasst, die eine fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften im Hinblick auf zwei wohnwirtschaftliche Hypothekenkreditportfolien der easygroup festgestellt hat. Dies führte zu einer Erhöhung der damit verbundenen risikogewichteten Aktiva (*Risk-Weighted Assets*). Auf Segmentebene resultierte daraus eine rückwirkende Erhöhung der risikogewichteten Aktiva (*Risk-Weighted Assets*) und eine Verringerung der Erträge auf das Eigenkapital (RoE) sowie der Erträge auf die risikogewichteten Aktiva (*Return on Risk-Weighted Assets*) in der easygroup; in den anderen Segmente führte dies jedoch in einigen Fällen auf Grundlage entsprechender Anpassungen in der Kapitalallokation zu einer Verbesserung der Leistungskennzahlen, insbesondere der Erträge auf das Eigenkapital (RoE). Weitere Informationen zu der Vor-Ort-Prüfung finden sich unter "*Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.*". Die folgenden Tabellen zeigen die ursprünglich berichteten Zahlen und deren jeweilige Anpassungen:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE[1]	11,9%	12,8%	0,9
RoE (@12% CET)[1]	14,9%	14,9%	0

	Für den Sechsmonatszeitraum zum 30. Juni 2016		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE[1]	19,5%	20,3%	0,8
RoE (@12% CET)[1]	21,8%	21,9%	0,1

	Für das zum 31. Dezember 2016 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE[1]	17,6%	18,8%	1,2
RoE (@12% CET)[1]	19,8%	19,9%	0,1

	Für das zum 31. Dezember 2015 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE[1]	19,4%	19,9%	0,5
RoE (@12% CET)[1]	20,1%	20,2%	0,1

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

Treasury Services & Markets

	Für den Sechsmonatszeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014[1]
	(ungeprüft) (in € Millionen ausgenommen Prozentangaben)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen ausgenommen Prozentangaben)		
Nettozinsertrag	24,9	28,2	54,3	58,1	54,8
Provisionsüberschuss	0,0	0,0	0,0	0,0	0,0
Operative Kernerträge	24,9	28,2	54,3	58,1	54,8
Operative Erträge	34,7	28,9	66,2	71,9	79,7
Operative Aufwendungen	(8,0)	(8,0)	(16,3)	(19,0)	(21,6)
Risikokosten	0,0	0,0	(0,0)	0,0	0,0
Jahresüberschuss vor Steuern (= Nettogewinn)	26,7	20,9	49,9	52,9	58,1
Return on Equity[1]	14,2%[4]	12,2%[4]	14,5%[4]	14,5%[4]	16,1%
RoE (@12% CET1)[1]	16,6%[4]	13,2%[4]	15,4%[4]	14,7%[4]	14,5%
Return on Risk-Weighted Assets[1)3)]	2,59%	2,30%	2,62%	2,57%	2,81%
Nettozinsmarge	0,84%	0,98%[2]	0,96%	0,93%	1,01%
Cost/Income Ratio[1]	23,1%	27,7%	24,6%	26,4%	27,1%
Aktiva und Liquiditätsreserve[1]	7.799	6.302	6.691	6.293	7.577
Risikogewichtete Aktiva	2.100	1.842	2.031	1.785	2.325
Eigene Emissionen und sonstige Verbindlichkeiten[1]	2.404	2.860	2.847	3.367	3.725

1) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
2) Die Zahl wurde gemäß dem Ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2017 endenden Sechsmonatszeitraums angepasst, um eine Änderung des für das Verhältnis maßgeblichen Nenners von den durchschnittlichen Gesamtaktiva hin zu den durchschnittlichen zinstragenden Aktiva zu reflektieren.
3) "Return" auf Basis des Nettogewinns berechnet.
4) Die Zahlen sind ungeprüft und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen aufgrund einer Vor-Ort-Prüfung im Auftrag der EZB Anfang 2017 für die Vergangenheit angepasst, die eine fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften im Hinblick auf zwei wohnwirtschaftliche Hypothekenkreditportfolien der easygroup festgestellt hat. Dies führte zu einer Erhöhung der damit verbundenen risikogewichteten Aktiva (*Risk-Weighted Assets*). Auf Segmentebene resultierte daraus eine rückwirkende Erhöhung der risikogewichteten Aktiva (*Risk-Weighted Assets*) und eine Verringerung der Erträge auf das Eigenkapital (RoE) sowie der Erträge auf die risikogewichteten Aktiva (*Return on Risk-Weighted Assets*) in der easygroup; in den anderen Segmente führte dies jedoch in einigen Fällen auf Grundlage entsprechender Anpassungen in der Kapitalallokation zu einer Verbesserung der Leistungskennzahlen, insbesondere der Erträge auf das Eigenkapital (RoE). Weitere Informationen zu der Vor-Ort-Prüfung finden sich unter "*Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.*". Die folgenden Tabellen zeigen die ursprünglich gemeldeten Werte und deren jeweilige Anpassungen:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	13,4%	14,2%	0,8
RoE (@12% CET)[1]	16,7%	16,6%	(0,1)

	Für den Sechsmonatszeitraum zum 30. Juni 2016		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	11,9%	12,2%	0,3
RoE (@12% CET)[1]	13,3%	13,2%	(0,1)

	Für das zum 31. Dezember 2016 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	13,7%	14,5%	0,8
RoE (@12% CET)[1]	15,5%	15,4%	(0,1)

	Für das zum 31. Dezember 2015 endende Geschäftsjahr		
	Ursprünglich berichtete Zahl	Angepasste Zahl	Anpassung (in Prozentpunkten)
		(ungeprüft)	
RoE[1]	14,3%	14,5%	0,2
RoE (@12% CET)[1]	14,8%	14,7%	(0,1)

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

Corporate Center

	Für den Sechsmonats-zeitraum zum 30. Juni		Für das zum 31. Dezember endende Geschäftsjahr		
	2017	2016	2016	2015	2014[1]
	(ungeprüft) (in € Millionen)		(geprüft, soweit nicht abweichend angegeben) (in € Millionen)		
Nettozinsertrag	(2,6)	10,4	(5,9)	34,1	15,5
Provisionsüberschuss	(1,4)	3,7	2,1	2,7	(6,1)
Operative Kernerträge	(4,0)	14,1	(3,8)	36,8	9,4
Operative Erträge	3,3	39,1	52,8	79,8	26,0
Operative Aufwendungen	(23,5)	(16,5)	(35,4)	(42,1)	(23,5)
Risikokosten	(5,9)	(0,8)[2]	(2,7)	(5,8)	(8,3)
Jahresüberschuss/-fehlbetrag vor Steuern	(35,7)	7,0	(8,7)	0,9	(34,1)
Nettogewinn/-verlust	(82,8)	46,1	4,5	(23,2)	(35,3)
Sonstige Aktiva	3.095	3.447	3.489	3.317	3.757
Risikogewichtete Aktiva	1.320	1.404	1.246	1.373	1.902
Eigenkapital[1]	3.348	3.224	3.134	2.956	2.619
Sonstige Verbindlichkeiten[1]	2.039	2.854	2.748	2.625	1.722

1) Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft).
2) Diese Zahl weicht aufgrund von Rundungsunterschieden vom Ungeprüften Konzernzwischenabschluss für den zum 30. Juni 2016 endenden Sechsmonatszeitraum ab.

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.

Jüngste Entwicklungen

Zwischen dem 30. Juni 2017 und dem Datum des Prospekts gab es außer nachstehend beschriebenen keine wesentlichen Veränderungen der Geschäfts-, Finanz- und Ertragslage der BAWAG Gruppe.

Entsprechend der typischen Saisonabhängigkeit hat die BAWAG Gruppe in den Sommermonaten auf Grundlage vorläufiger Ergebnisse für das dritte Quartal 2017 geringfügig niedrigere operative Kernerträge verzeichnet, vor allem aufgrund von leicht geringeren Verkäufen von gebührenpflichtigen Produkten an Privatkunden und einer geringeren Transaktionsaktivität von Kunden im privaten und öffentlichen Sektor sowie aufgrund des Abbaus von Abwicklungsportfolien und des Nicht-Kerngeschäftes. Die BAWAG Gruppe erwartet jedoch, dass das dritte Quartal 2017 im Vergleich zum dritten Quartal 2016 stärker ausfallen wird, und zwar mit Blick auf Umsatz- und Ertragssituation. Auch die operativen Kernerträge dürften voraussichtlich im vierten Quartal 2017 durch organisches Wachstum sowie infolge der kürzlich vollzogenen Akquisition von PayLife, dem Kartengeschäft von SIX Payment Services Austria, und – abhängig von dem Zeitpunkt des Vollzugs – der Akquisition der Südwestbank (deren Abschluss im vierten Quartal 2017 oder im ersten Quartal 2018 erwartet wird), wieder zunehmen. Mit den Akquisitionen beabsichtigt die BAWAG Gruppe ihr Kerngeschäft in Deutschland auszuweiten und ihre Kundenbasis um rund 750.000 neue Kunden zu erhöhen. Während erwartet wird, dass die operativen Aufwendungen im dritten Quartal 2017 mit Blick auf den fortwährenden Fokus auf operative Effizienz leicht geringer ausfallen, wird erwartet, dass die mit den erworbenen Unternehmen verbundenen operativen Aufwendungen nach dem Abschluss der Akquisitionen zunächst zunehmen und anschließend voraussichtlich infolge der geplanten Effizienz- und Integrationsmaßnahmen wieder sinken. Es wird erwartet, dass sich die Risikokosten allgemein im Rahmen des vorherigen Quartals bewegen, wohingegen die Steuerbelastung den längerfristigen Richtwert von rund 22% widerspiegelt. Die Steuerbelastung der BAWAG Gruppe für das verbleibende Jahr wird zudem von Tag 1-Effekten aus der kürzlich vollzogenen Akquisition von PayLife sowie (sofern noch in 2017 vollzogen) der Akquisition der Südwestbank beeinflusst werden.

BAWAG P.S.K. Retail. Im dritten Quartal gab es im Segment BAWAG P.S.K. Retail ein fortgesetztes Kundeninteresse an den Kernprodukten, wie Krediten und gebührenpflichtige Produkte (insbesondere bei Wohnungsbaudarlehen und Wertpapieren). Bestimmte andere Produkte wie z.B. Verbraucherkredite und Versicherungsprodukte litten unter niedriger Nachfrage, die die BAWAG Gruppe auf Saisoneffekte zurückführt. Die BAWAG Gruppe erwartet, dass die Nachfrage im vierten Quartal 2017 wieder steigen wird. Sie beabsichtigt dies mit zusätzlichen Marketingkampagnen zu unterstützen.

easygroup. Während das Geschäft des Segments easygroup voraussichtlich im dritten Quartal 2017 weitgehend stabil bleibt, wird das Segment in den nächsten Quartalen – vor allem infolge der kürzlich vollzogenen Akquisition von PayLife – mit mehr als einer halben Millionen neuer Kunden, der Gewinnung eines erfahrenen Teams mit Expertise im Kreditkartengeschäft und dem Potenzial von weiteren Vertriebspartnerschaften, wachsen.

DACH Corporates & Public Sector. Das Segment DACH Corporates & Public Sector wird voraussichtlich im dritten Quartal 2017 (im Vergleich zum dritten Quartal 2016) steigende Abschlüsse mit großen Unternehmen, insbesondere in Deutschland, vermelden. Angesichts des geringen oder sogar negativen Zinsumfeldes, erwartet die BAWAG Gruppe jedoch, dass das Neugeschäftsvolumen keine wesentlichen Auswirkungen auf den Nettozinsertrag haben wird. Wie in den Vorjahren dürfte der Provisionsüberschuss im dritten Quartal 2017 aufgrund saisonaler Effekte niedriger ausfallen. Die BAWAG Gruppe erwartet jedoch, dass der Provisionsüberschuss im vierten Quartal 2017 höher, für das Gesamtjahr 2017 im Ergebnis hingegen voraussichtlich vergleichbar 2016 ausfallen wird.

International Business. Das Segment International Business verzeichnete im ersten Halbjahr 2017 einen leichten Abwärtstrend. Es wird jedoch nicht erwartet, dass sich dieser Rückgang im dritten Quartal 2017 fortsetzt. Das Segment hat im dritten Quartal 2017 bei weniger vorzeitigen Rückzahlungen ein stabiles Neugeschäft bei Krediten gesehen, obwohl das Portfolio im Vergleich zu 2016 weiterhin kleiner ausfällt. Die Marktbedingungen waren im Vergleich zum Vorjahr weitgehend stabil. Mit Blick darauf, dass die durchschnittliche Portfoliogröße im dritten Quartal

2017 voraussichtlich leicht unter der des ersten Halbjahres 2017 liegen wird, erwartet die BAWAG Gruppe, dass der Zinsüberschuss im dritten Quartal 2017 etwas niedriger als in den ersten beiden Quartalen 2017 ausfällt.

Im ersten Quartal 2017 wurde die BAWAG Gruppe einer Vor-Ort-Prüfung im Auftrag der EZB zur Behandlung und dem Kreditrisikomanagement in bestimmten Geschäftsfeldern unterzogen. Die Prüfung konzentrierte sich auf eine detaillierte Analyse und das Risikomanagement hinsichtlich zweier internationaler wohnwirtschaftlicher Hypothekenkreditportfolien (ein Hypothekenkreditportfolio im Vereinigten Königreich Großbritannien und Nordirland, das im Dezember 2015 erworben wurde, und ein Hypothekenkreditportfolio in Frankreich, das im Dezember 2016 über ein Verbriefungsvehikel erworben wurde), die jeweils zum internationalen Privatkundengeschäft des Segments easygroup gehören, und Portfolien im Segment International Business. Darüber hinaus wurden das organisatorische Rahmenwerk, interne Richtlinien und Verfahrensweisen sowie das Kreditrisikomanagement in diesen Bereichen evaluiert und einer Analyse von risikobasierten Stichproben der relevanten Kreditunterlagen unterzogen.

Nach den Feststellungen der EZB, die im September 2017 abgeschlossen wurden, hat die Vor-Ort-Prüfung eine Reihe von Mängeln in den untersuchten Bereichen hervorgebracht, insbesondere die fehlerhafte Anwendung bestimmter aufsichtsrechtlicher Vorschriften, was zu einer rückwirkenden Anpassung der risikogewichteten Aktiva (*Risk-Weighted Assets*) ("**RWA**") und der damit zusammenhängenden Kennzahlen führt, und zwar hinsichtlich der beiden internationalen wohnwirtschaftlichen Hypothekenkreditportfolien der easygroup mit einer Erhöhung der damit verbundenen risikogewichteten Aktiva. Die BAWAG Gruppe adressiert die Feststellung im Hinblick auf das wohnwirtschaftliche Hypothekenkreditportfolio im Vereinigten Königreich und etablierte die Eignung für ein bevorzugtes Risikogewicht von 35% zum 30. Juni 2017, das künftig von der BAWAG Gruppe angewendet wird. In Bezug auf das wohnwirtschaftliche Hypothekenkreditportfolio in Frankreich hat die BAWAG Gruppe die berichteten RWA zum 31. Dezember 2016 und zum 30. Juni 2017 rückwirkend erhöht (wobei sie hierfür und künftig ein Risikogewicht von 134% anwendet), beabsichtigt jedoch in Abstimmung mit der EZB Maßnahmen einzuleiten, um die festgestellten Mängel zu beseitigen.

Die rückwirkenden Anpassungen schließen die in der folgenden Tabelle aufgeführten Anpassungen für den Sechsmonatszeitraum zum 30. Juni 2017 ein:

	Für den Sechsmonatszeitraum zum 30. Juni 2017		
	Ursprünglich berichtete Zahl	**Angepasste Zahl**	**Anpassung (in Prozentpunkten)**
		(ungeprüft)	
RoE (@12% CET1)	15,7%	14,7%	(1,0)
RoTE (@12% CET1)	18,3%	16,9%	(1,4)
Return on risk-weighted assets	2,39%	2,19%	(0,19)
CET1-Quote (Vollumsetzung) . .	16,5%	15,5%	(1,0)
Gesamtkapitalquote (Vollumsetzung) . .	19,3%	18,1%	(1,2)

Hinweis: Die Zahlen wurden den Buchhaltungsunterlagen oder internen Managementberichtssystemen der BAWAG Gruppe entnommen (ungeprüft) und wurden von den ursprünglich von der BAWAG Gruppe berichteten Zahlen angepasst.

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

In der folgenden Tabelle sind die Anfangseffekte bestimmter aktueller und erwarteter Ereignisse auf die CET1-Quote (Vollumsetzung) der BAWAG Gruppe, basierend auf den gegenwärtigen Schätzungen und Erwartungen der BAWAG Gruppe, und der jeweils erwartete Zeitpunkt für ihren erstmaligen Eintritt dargestellt. Die Berechnung basiert auf den jeweiligen absoluten Auswirkungen auf die CET1-Quote (Vollumsetzung) zum 30. Juni 2017, reflektiert jedoch keine sich potentiell positiv auswirkenden Effekte, wie etwa weitere (d.h. noch nicht zum 30. Juni 2017 angesetzte) Zwischengewinne zum 31. Dezember 2017 oder eine Verringerung von RWA aufgrund von Tilgungen innerhalb der wohnwirtschaftlichen Hypothekenkreditportfolien in Frankreich und in dem Vereinigten Königreich.

Aktuelle und erwartete Ereignisse	**30. Juni 2017**	**30. Sept. 2017**	**31. Dez. 2017**	**1. Jan. 2018**
	(ungeprüft, anfänglich erwartete Effekte der Ereignisse auf die CET1-Quote (Vollumsetzung) in Prozentpunkten)			
RWA (Hypothekenkreditportfolio in Frankreich)	(1,02)			
Vorabdividende[1]	(0,29)			
Großkreditbehandlung des Hypothekenkreditportfolios in Frankreich (potentielle Bußgelder)		(0,07)		
Vollzug des Erwerbs der PayLife			(0,23)	
Erwarteter Vollzug des Erwerbs der Südwestbank			(3,10)	
Auswirkung von IFRS 9				(0,40)

1) Der in Form der Vorabdividende (wie unten in C.1 definiert) am 11. September 2017 ausgeschüttete Zwischengewinn repräsentierte 0,29 Prozentpunkte der CET1-Quote (Vollumsetzung) vom 30. Juni 2017 (d.h. 0,29 Prozentpunkte wären von dieser CET1-Quote abzuziehen gewesen, wenn die Vorabdividende bereits zum 30. Juni 2017 in Ansatz gebracht worden wäre).

Quelle: Finanzberichte der BAWAG Gruppe und Unternehmensinformationen.

Im Einklang mit seinem strategischen Ziel, seine Geschäfte sicher und umsichtig zu betreiben und auch angesichts der erwarteten und in obiger Tabelle dargestellter Effekt plant das Unternehmen weiterhin mit einer starken Kapitalposition und beabsichtigt, die CET1-Quote (Vollumsetzung) zukünftig auf mindestens 12% zu halten.

B.8	**Ausgewählte wesentliche Pro-forma-Finanzinformationen.**	Entfällt. Die Gesellschaft hat keine Pro-forma-Finanzinformationen erstellt.
B.9	**Gewinnprognosen oder -schätzungen.**	Entfällt. Die Gesellschaft hat keine Gewinnprognosen oder -schätzungen erstellt.

B.10	**Beschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen.**	Entfällt. Die Bestätigungsvermerke zu den in diesem Prospekt enthaltenen historischen Finanzinformationen wurden ohne Einschränkung erteilt.
B.11	**Nicht ausreichen des Geschäftskapitals des Emittenten zur Erfüllung bestehender Anforderungen.**	Entfällt. Das Geschäftskapital der Gesellschaft reicht aus, um die bestehenden Anforderungen zu erfüllen.
C. Wertpapiere		
C.1	**Beschreibung von Art und Gattung der angebotenen und/ oder zum Handel zuzulassenden Wertpapiere, einschließlich Wertpapierkennung.**	Das Angebot (wie unten in E.3 definiert) besteht aus einer Gesamtzahl von bis zu 40.250.000 auf den Inhaber lautende Aktien ohne Nennbetrag (Stückaktien), jeweils mit einem anteiligen Betrag am Grundkapital von € 1,00 und Gewinnanteilsberechtigung ab dem 1. Januar 2017 (ausgenommen, jedoch, eine am 11. September 2017 erfolgte Abschlagszahlung auf den Bilanzgewinn in Höhe von € 51,6 Millionen (die "**Vorabdividende**")), und beinhaltet: • bis zu 17.910.181, 13.108.399, 2.647.613 bzw. 1.333.807 existierende auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) (die "**Verbindlichen Aktien**") aus dem Aktienbesitz der (i) Promontoria Holding 212 B.V., der Promontoria Holding 213 B.V., der Promontoria Holding 214 B.V., der Promontoria Holding 215 B.V. und der Promontoria Holding 216 B.V. (zusammen die "**Cerberus Aktionäre**"), die von verschiedenen von Cerberus Capital Management LP und verbundenen Unternehmen ("**Cerberus**") verwalteten Investmentfonds kontrolliert werden, (ii) der GoldenTree HoldCo Lux 1 S.à r.l., der GoldenTree HoldCo Lux 2 S.à r.l., der GoldenTree HoldCo Lux 3 S.à r.l., der GoldenTree Asset Management Dutch BV, der GN3 SIP LP und der Stichting PGGM Depositary (zusammen die "**GoldenTree Aktionäre**"), die von GoldenTree Asset Management LP und verbundenen Unternehmen ("**GoldenTree**") kontrolliert werden oder deren Aktienbesitz Gegenstand eines Vermögensverwaltungsvertrages mit GoldenTree ist, (iii) PSH und (iv) bestimmte Minderheitsaktionäre (zusammen mit den Cerberus Aktionären, den GoldenTree Aktionären und PSH, die "**Verkaufenden Aktionäre**"); und • bis zu 5.250.000 existierende auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) (die "**Mehrzuteilungs-Aktien**" und zusammen mit den Verbindlichen Aktien, die "**Angebotenen Aktien**") aus dem Aktienbesitz von den Verkaufenden Aktionären (außer PSH und bestimmte Minderheitsaktionäre), um eine mögliche Mehrzuteilung abzudecken (wie unten in E.3 definiert). Während die Maximalanzahl an Angebotenen Aktien, die im Rahmen des Angebots (wie in E.3 definiert) angeboten wird, konstant bleibt und ohne einen weiteren verkaufenden Aktionärs hinzuzufügen, kann sich die Maximalanzahl an Angebotenen Aktien, die von einem einzelnen Verkaufenden Aktionär verkauft werden soll, und dementsprechend auch der jeweilige Anteilsbesitz der

		Verkaufenden Aktionäre an der Gesellschaft bei Abschluss des Angebots, möglicherweise ändern. Zum Zwecke der Zulassung zum Amtlichen Handel der Wiener Börse ("**Amtlicher Handel**") bezieht sich dieser Prospekt auf alle Ausgegebenen Aktien. Internationale Wertpapierkennnummer (ISIN) der Ausgegebenen Aktien: AT0000BAWAG2
C.2	**Währung der Wertpapieremmission.**	Euro.
C.3	**Zahl der ausgegebenen und voll eingezahlten und der ausgegebenen, aber nicht voll eingezahlten Aktien.**	Das Grundkapital der Gesellschaft beträgt € 100.000.000,00 und ist in 100.000.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) eingeteilt. Das gesamte Grundkapital ist voll eingezahlt.
	Nennwert pro Aktie bzw. Angabe, dass die Aktien keinen Nennwert haben.	Jede Ausgegebene Aktie steht für einen nominellen Wert von € 1,00 am Grundkapital.
C.4	**Beschreibung der mit den Wertpapieren verbundenen Rechte.**	Jede Ausgegebene Aktie gewährt eine Stimme in den Hauptversammlungen der Gesellschaft und ist ab dem 1. Januar 2017 gewinnberechtigt (ausgenommen die bereits geleistete Vorabdividende). Es bestehen keine Beschränkungen des Stimmrechts. Alle Gesellschafter der Gesellschaft haben die gleichen Stimmrechte. Im Falle einer Liquidation der Gesellschaft werden die Vermögensgegenstände der Gesellschaft, die nach der Befriedigung aller Verbindlichkeiten der Gesellschaft übrig bleiben, zwischen den Aktionären im Verhältnis ihrer Anteile an der Gesellschaft aufgeteilt.
C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere.**	Entfällt. Die Ausgegebenen Aktien sind gemäß den gesetzlichen Regelungen, die für auf den Inhaber lautende Stammaktien gelten, frei übertragbar. Mit Ausnahme der unten unter E.5. beschriebenen Lock-up-Vereinbarungen bestehen keine Einschränkungen der Übertragbarkeit der Ausgegebenen Aktien.
C.6	**Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel in einem geregelten Markt beantragt wurde bzw. werden soll, Nennung aller geregelten Märkte, in denen die Wertpapiere gehandelt werden oder werden sollen.**	Die Gesellschaft wird am oder um den 11. Oktober 2017 einen Antrag auf Zulassung der Ausgegebenen Aktien zum Handel am Amtlichen Markt stellen. Der Handel mit den Ausgegebenen Aktien der Gesellschaft an der Wiener Börse wird voraussichtlich am oder um den 25. Oktober 2017 aufgenommen.
C.7	**Beschreibung der Dividendenpolitik.**	Die zukünftige Dividendenpolitik der Gesellschaft zielt darauf ab, eine Dividende auszuschütten, die 50% des gemäß IFRS ermittelten Nachsteuergewinns der BAWAG Gruppe in dem jeweiligen Geschäftsjahr entspricht; dies setzt jedoch voraus, dass die Zahlung einer solchen Dividende mit der langfristigen und nachhaltigen Geschäftsentwicklung und gegenwärtigen und zukünftigen regulatorischen Anforderungen vereinbar ist. Zusätzlich zu dieser anvisierten Ausschüttung wird die Gesellschaft jährlich entscheiden, ob etwaiges überschüssiges Kapital über dem Zielniveau einer CET1-Quote (Vollumsetzung) von mindestens 12% eine höhere Ausschüttung an die Aktionäre erlaubt. Wenn die Gesellschaft über Ausschüttungen entscheidet, wird sie insbesondere Investitionen in organisches Wachstum, bevorstehende Akquisitionen und andere M&A-Opportunitäten berücksichtigen, die das Renditeprofil

der Gesellschaft erfüllen. Da die Gesellschaft eine Aktiengesellschaft nach österreichischem Recht ist, hängt ihre Möglichkeit, eine Dividende zu zahlen, von dem Bestehen eines nach den österreichischen Grundsätzen ordnungsgemäßer Buchführung zu ermittelnden Bilanzgewinns in dem jeweiligen Geschäftsjahr ab.

Des Weitern, falls die Gesellschaft entscheidet, eine Dividende für das Geschäftsjahr 2017 zu zahlen, zielt die Gesellschaft auf eine Ausschüttung von 50% des im vierten Quartals 2017 erwirtschafteten Nachsteuergewinns der BAWAG Gruppe (ermittelt gemäß IFRS und berechnet auf der Basis der durchschnittlichen Quartalsgewinne im Jahr 2017) ab.

D. Risiken

Eine Anlage in die Ausgegebenen Aktien unterliegt einer Reihe von Risiken. Die folgenden Risiken könnten sich allein oder zusammen mit weiteren Risiken und Unwägbarkeiten, die der Gesellschaft derzeit nicht bekannt sind oder die sie derzeit möglicherweise als unwesentlich erachtet, wesentlich nachteilig auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der Gesellschaft auswirken. Wenn sich Risiken verwirklichen sollten, könnten Anleger ihre Anlage ganz oder teilweise verlieren.

D.1 Zentrale Angaben zu den zentralen Risiken, die dem Emittenten oder seiner Branche eigen sind.

Risiken der Geschäftstätigkeit der BAWAG Gruppe und der Branche, in der sie tätig ist:

- Der wirtschaftliche Erfolg der BAWAG Gruppe ist abhängig von den politischen und allgemeinen makroökonomischen Rahmenbedingungen jener Länder, in denen die BAWAG Gruppe aktiv ist.
- Ein Ausstieg eines Mitgliedsstaates der Europäischen Union ("**EU**") oder des Euroraums wäre beispiellos, und deren Folgen können derzeit nicht beurteilt werden. Ein solches Ereignis kann eine wesentliche nachteilige Auswirkung auf das Finanzsystem und die allgemeine Wirtschaftssituation in der EU einschließlich Österreichs sowie erhebliche negative Auswirkungen auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Die BAWAG Gruppe ist dem Risiko von Zahlungsausfällen anderer Finanzinstitute oder staatlicher Schuldner ausgesetzt. Insolvenzen im Finanzsektor oder der Ausfall staatlicher Schuldner könnten wegen der weltweiten Verflechtung der Finanzmärkte nachteilige Auswirkungen auf den gesamten Finanzsektor einschließlich der BAWAG Gruppe haben.
- Die BAWAG Gruppe sieht sich, insbesondere in ihrem heimischen Markt in Österreich, starkem Wettbewerb ausgesetzt, der eine wesentliche nachteilige Auswirkung auf ihre Geschäftstätigkeit, Finanz- und Ertragslage sowie ihre Erfolgsaussichten haben könnte.
- Die BAWAG Gruppe ist vom Vertrauen ihrer Kunden in das Bankensystem und die Geschäftstätigkeit der BAWAG Gruppe abhängig. Ein Vertrauensverlust kann zu einem erhöhten Abzug von Einlagen führen, was wesentliche nachteilige Auswirkungen auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben könnte.

- Eine Herabstufung des Ratings der BAWAG P.S.K. oder einzelner durch sie ausgegebener Finanzinstrumente (wie etwa Pfandbriefe) könnte ihre Refinanzierungskosten erhöhen und eine wesentliche nachteilige Auswirkung auf die Liquidität, die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Die BAWAG Gruppe ist dem Risiko von Verlusten aufgrund von Wechselkursänderungen ausgesetzt, was eine wesentlich nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben könnte.
- Die BAWAG Gruppe ist verschiedenen Formen von Marktrisiken ausgesetzt, einschließlich Zinsrisiko und Credit-Spread-Risiken, die eine wesentlich nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben könnten.
- Die BAWAG Gruppe ist Bonitätsrisiken hinsichtlich Kunden und Gegenparteien ausgesetzt, die eine wesentlich nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben könnten.
- Die Überwachung des Kreditportfolios der BAWAG Gruppe hängt von der Wirksamkeit und dem effizienten Funktionieren ihrer Prozesse, einschließlich der Scoring- und der Bonitätsbewertungssysteme, ab und es besteht das Risiko, dass diese Systeme und Prozesse die Bonität nicht wirksam einschätzen.
- Die BAWAG Gruppe nutzt für viele ihrer Aktivitäten Modelle und falls diese Modelle sich als unzutreffend herausstellen sollten, könnte ihr Risikomanagement wirkungslos oder beeinträchtigt werden und/oder sie könnte den Wert ihrer finanziellen Vermögenswerten und Verbindlichkeiten über- oder unterschätzen.
- Die Aktiva und Passiva der Bilanz der BAWAG Gruppe bestehen zum Teil aus zum Marktwert bilanzierten Finanzinstrumenten, wobei Änderungen des Marktwertes erfolgswirksam erfasst werden. Als Folge solcher Änderungen kann die BAWAG Gruppe in der Zukunft Verluste erleiden, was eine wesentliche nachteilige Auswirkung auf die BAWAG Gruppe haben könnte.
- Die internationale Geschäftstätigkeit der BAWAG Gruppe ist Kredit-, Konzentrations-, Markt-, Transfer-, Konvertibilitäts- und politischen Risiken ausgesetzt.
- Niedrige Immobilienpreise und -erträge könnten die Fähigkeit der BAWAG Gruppe, Kreditausfälle durch Verwertung von Sicherheiten auszugleichen, erheblich beeinträchtigen.
- Die BAWAG Gruppe hat zur Finanzierung ihrer Geschäftstätigkeiten einen kontinuierlichen Bedarf an Liquidität und ist Liquiditätsrisiken ausgesetzt, was sich negativ auf ihre Fähigkeit, ihre Verbindlichkeiten zu erfüllen, auswirken kann.
- Wenn die BAWAG Gruppe es versäumt, sich an rasante technologische Veränderungen anzupassen, könnte ihre Wettbewerbsfähigkeit abnehmen.

- Wenn die BAWAG Gruppe es versäumt, ihre Marken in kostengünstiger Art und Weise zu fördern und zu erhalten, kann die BAWAG Gruppe Marktanteile verlieren und können ihre Umsätze zurückgehen.
- Negative Berichterstattung aufgrund von Kundenbeschwerden, Rechtsstreitigkeiten oder anderen Faktoren, und eine negative öffentliche Wahrnehmung der Geschäftstätigkeit der BAWAG Gruppe könnten zu einem erheblichen Rückgang in der Nachfrage ihrer Produkte führen.
- Die BAWAG Gruppe kann ihre Geschäfts- und strategischen Ziele verfehlen, und ihre historischen Ergebnisse könnten nicht repräsentativ für ihre zukünftigen Ergebnisse sein, sowie Zwischenergebnisse kein Indikator für ihre Jahresergebnisse sein könnten.
- Eine Beendigung oder Verringerung der engen Zusammenarbeit der BAWAG Gruppe mit ihren Vertriebspartnern könnte eine wesentliche nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Die beabsichtigte Kündigung des Kooperationsvertrags mit der österreichischen Post könnte nicht zu den angestrebten Kosteneinsparungen führen und könnte während der Übergangsphase das Kundenerlebnis negativ beeinträchtigen oder als Folge eines kleineren Filialnetzwerks zu einem Verlust von Kunden und Geschäftschancen führen oder sonstige nachteilige Auswirkungen haben.
- Aufgrund jedweder Unzulänglichkeit oder jedweden Versagens von internen Verfahren, von Mitarbeitern und Systemen oder aufgrund externer Ereignisse könnte es zum Eintritt unerwarteter Verluste kommen (operationelles Risiko).
- Die BAWAG Gruppe ist operationellen Risiken ausgesetzt, die im Zusammenhang mit Versäumnissen ihrer zentralen Outsourcing-Dienstleister stehen und etwa zu Betriebsunterbrechungen führen können.
- Ausfälle der EDV-Systeme der BAWAG Gruppe könnten zu erheblichen Beeinträchtigungen des Geschäftsbetriebs der BAWAG Gruppe führen.
- Die operativen Systeme der BAWAG Gruppe sind einem zunehmenden Risiko von Cyber-Attacken und anderer Internet-Straftaten ausgesetzt, aus denen sich wesentliche Verluste von Kundeninformationen, eine Schädigung der Reputation der BAWAG Gruppe und regulatorische Sanktionen ergeben und die zu finanziellen Verlusten führen könnten.
- Investitionen der BAWAG Gruppe könnten keinen Ertrag einbringen, und die Bewertung von Beteiligungen der BAWAG Gruppe könnte Abschreibungen erforderlich machen. Beteiligungen könnten lediglich unter Realisierung von Verlusten verkauft werden.
- Die BAWAG Gruppe kann Schwierigkeiten haben, Akquisitionen zu identifizieren und durchzuführen, und sowohl die Durchführung als auch das Absehen von Akquisitionen könnten eine wesentliche nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.

- Kündigungen oder der Verlust von Schlüsselarbeitskräften, inklusive der Mitglieder des Vorstands der Gesellschaft, und mögliche Schwierigkeiten der Rekrutierung oder des Haltens von qualifizierten Arbeitskräften könnten sich nachteilig auf die Fähigkeit der BAWAG Gruppe, ihre Strategie umzusetzen, auswirken.
- Wechselwirkungen mehrerer Risikofaktoren könnten zu einer wechselseitigen Verstärkung dieser Risiken führen (Korrelationsrisiko).

Aufsichtsrechtliche, rechtliche und steuerliche Risiken:

- Zurückliegende, laufende und nicht absehbare zukünftige Reformen und Initiativen in Gesetzgebung oder Aufsicht, einschließlich zusätzlicher und strengerer Vorschriften sowie dem Einfluss der öffentlichen Hand auf den Finanzsektor, könnten wesentliche nachteilige Auswirkungen auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Europäische und österreichische Gesetzgebung in Bezug auf die Abwicklung von Banken, insbesondere die Befugnisse der für eine Abwicklung zuständigen Behörden im Hinblick darauf, eine Abwicklung sicherzustellen und Anteilsinhaber sowie Gläubiger in einer Krisensituation zu einer Mitwirkung zu zwingen, könnte sich, wenn solche Schritte zur Sicherstellung des Fortbestands der BAWAG Gruppe oder wesentlicher ihrer Funktionsbereiche unternommen würden, erheblich auf den Geschäftsbetrieb der BAWAG Gruppe auswirken und zu einem Verlust der Aktionäre der BAWAG Gruppe hinsichtlich ihrer gesamten Anlage in die Gesellschaft führen.
- Erhöhte Kapital- und Liquiditätsanforderungen, inklusive Anforderungen an die Verschuldensquote und erweiterte Aufsichtsbefugnisse, um weitere Eigenmittel oder Liquidität gemäß der Richtlinie 2013/36/EU des Europäischen Parlaments und des Rates vom 26. Juni 2013 über den Zugang zur Tätigkeit von Kreditinstituten und die Beaufsichtigung von Kreditinstituten und Wertpapierfirmen (Eigenkapitalrichtlinie) und der CRR und Änderungsvorschlägen einzufordern, können sich nachteilig auf die Ertragslage der BAWAG Gruppe auswirken.
- Mindestanforderungen an Eigenmittel und anrechenbare Verbindlichkeiten, wie diese von der zuständigen Abwicklungsbehörde unter dem Bundesgesetz über die Sanierung und Abwicklung von Banken und der Verordnung über den einheitlichen Bankenabwicklungsmechanismus gefordert werden, können sich nachteilig auf die Ertragslage der BAWAG Gruppe auswirken.
- Zukünftige Prüfungen der Aktiva-Qualität, Stresstests, die Prüfung interner Modelle und/oder Transparenzprüfungen der Europäischen Zentralbank ("**EZB**") oder der Europäischen Bankenaufsichtsbehörde könnten zu nachteiligen Ergebnissen für die BAWAG Gruppe führen und insbesondere einen erhöhten Bedarf

an Rückstellungen und/oder stärkeren Kapitalanforderungen auslösen.

- Die BAWAG Gruppe ist Risiken aufgrund von Feststellungen ausgesetzt, die sich aus von den Aufsichtsbehörden durchgeführten Prüfungen, Inspektionen und ähnlichen Untersuchungen ergeben.
- Die Geschäftstätigkeit der BAWAG Gruppe könnte aufgrund der Anforderungen zu zentralem Clearing, Berichterstattung und Risikominimierung sowie anderen Compliance-Anforderungen unter der European Market Infrastructure Regulation (Verordnung (EU) Nr. 648/2012 des Europäischen Parlaments und des Rates vom 4. Juli 2012 über OTC-Derivate, zentrale Gegenparteien und Transaktionsregister) und der Richtlinie über Märkte für Finanzinstrumente (Richtlinie 2014/65/EU des Europäischen Parlaments und des Rates vom 15. Mai 2014 über Märkte für Finanzinstrumente sowie zur Änderung der Richtlinien 2002/92/EG und 2011/61/EU oder "**MiFID II**") erheblich belastet werden.
- Der Zugang der BAWAG Gruppe zu Liquidität und Refinanzierungsmöglichkeiten kann durch eine Änderung der Besicherungsstandards der EZB nachteilig beeinflusst werden.
- Die Kosten, die der BAWAG Gruppe für die Einhaltung von Vorschriften und Sanktionen im Zusammenhang mit der Bekämpfung von Geldwäsche, Steuerhinterziehung, Korruption und Terrorismusfinanzierung entstehen, sind erheblich und können weiter steigen. Eine Nichteinhaltung dieser und ähnlicher Vorschriften kann schwerwiegende rechtliche Folgen und Auswirkungen auf die Reputation haben.
- Bestimmte Aspekte der steuerlichen Rahmenbedingungen, unter denen die BAWAG Gruppe tätig ist, wie etwa die österreichische Stabilitätsabgabe, können einen erheblichen negativen Effekt auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Die Annahmen der BAWAG Gruppe hinsichtlich der Abzugsfähigkeit gewisser Posten von ihrem zu versteuernden Einkommen, könnten sich als unzutreffend herausstellen, weshalb Steuerzahlungen höher als erwartet ausfallen könnten.
- Die Einführung der vorgeschlagenen Finanztransaktionssteuer könnte eine wesentliche nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Die verpflichtende "ex-ante"-Finanzierung des Einlagensicherungssystems gemäß der EU-Einlagensicherungsrichtlinie und ihre Umsetzung mittels eines Bundesgesetzes über die Einlagensicherungs- und Anlegerentschädigung durch Kreditinstitute (ESAEG) und möglicherweise höhere Beiträge könnten eine nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.

- Die jüngsten Änderungen der österreichischen Insolvenzordnung könnten eine wesentliche nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben.
- Die BAWAG Gruppe verwendet standardisierte Verträge und standardisierte allgemeine Geschäftsbedingungen, insbesondere in ihren wichtigen auf Privatkunden ausgerichteten Geschäftsfeldern, wodurch sich die Wahrscheinlichkeit erhöht, dass, wenn irgendeine darin enthaltene Bestimmung für nichtig erklärt wird, diese bei einer großen Anzahl von Verträgen unwirksam oder nicht durchsetzbar ist.
- Die BAWAG Gruppe hat finanzielle Verpflichtungen gegenüber ihren Angestellten, insbesondere Pensionsverpflichtungen, deren Berechnung auf einer Anzahl von Annahmen basiert, die von den tatsächlichen Gegebenheiten abweichen können.
- Die BAWAG Gruppe kann es versäumen, die Gesetze und Verordnungen zum Schutz personenbezogener Daten einzuhalten.
- Die Verschärfung von Verbraucherschutzgesetzen und/oder deren Auslegung sowie die Einhaltung der künftigen Umsetzung der MiFID II können einen negativen Einfluss auf die Profitabilität von Bankgeschäften mit Verbrauchern haben.
- Änderungen bei der Finanzberichtserstattung der BAWAG Gruppe, wie etwa Änderungen der IFRS, könnten sich wesentlich auf das Finanzergebnis und die regulatorischen Kapitalquoten der BAWAG Gruppe auswirken.
- Die BAWAG Gruppe ist vom neuen Rechnungslegungsgrundsatz IFRS 9 betroffen, wodurch die Eigenmittel und die Finanzlage der Gesellschaft negativ beeinflusst werden könnte.
- Trotz der Richtlinien, Verfahren und Methoden zum Risikomanagement der BAWAG Gruppe kann diese nicht identifizierten oder unerwarteten Risiken ausgesetzt sein, was eine wesentliche nachteilige Auswirkung auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben könnte.
- Die BAWAG Gruppe ist mehreren Gerichts- und regulatorischen Verfahren ausgesetzt und kann dies in Zukunft sein, wobei deren Ausgang wesentliche nachteilige Auswirkungen auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben könnte.
- Die BAWAG Gruppe ist Partei eines Verfahrens vor dem Handelsgericht Wien gegen die Stadt Linz, welches einen erheblichen finanziellen Einfluss auf die BAWAG Gruppe haben könnte.
- Die BAWAG P.S.K. ist Partei eines Schiedsverfahrens gegen die Österreichische Post, welches einen erheblichen finanziellen Einfluss auf die BAWAG Gruppe haben könnte.

		• Die BAWAG Gruppe ist Partei einiger Verfahren vor verschiedenen Gerichten im Zusammenhang mit der Insolvenz der ALPINE, welche einen erheblichen finanziellen Einfluss auf die BAWAG Gruppe haben könnten. • Die BAWAG Gruppe ist in einem in zunehmendem Maße regulierten Umfeld tätig. Sollte es die BAWAG Gruppe versäumen, die Vielzahl der auf sie anwendbaren Gesetze und Verordnungen, inklusive einer zunehmenden Anzahl von Berichtspflichten, einzuhalten, kann die BAWAG Gruppe oder ihre Vertreter zum Gegenstand von behördlichen Untersuchungen, regulatorischen Beschränkungen, Strafen, Unterlassungsansprüchen, Rechtsstreitigkeiten und Strafverfolgung werden. • Die Einhaltung oder Nichteinhaltung von auf die BAWAG Gruppe anwendbaren Rechtsvorschriften durch diese könnte wesentliche nachteilige Auswirkungen auf die Geschäftstätigkeit, Finanz- und Ertragslage sowie die Erfolgsaussichten der BAWAG Gruppe haben. Risiken im Zusammenhang mit der Gesellschafterstruktur: • Auch nach Abschluss des Angebotes werden Cerberus und GoldenTree wesentlichen Einfluss auf die Gesellschaft ausüben können, und ihre Interessen können mit den Interessen anderer Investoren in Konflikt geraten. • Nach Abschluss des Angebots wird die BAWAG Gruppe nicht mehr von den Verkaufenden Aktionären kontrolliert, was zu einem Verlust von Geschäftschancen führen und den Zugang zu Managementpersonal einschränken könnte.
D.3	**Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind.**	Risiken im Zusammenhang mit den Ausgegebenen Aktien: • Das Angebot könnte nicht abgeschlossen werden, und Anleger könnten bezahlte Wertpapierprovisionen verlieren und den Risiken jedweder Leerverkäufe von Aktien der Gesellschaft ausgesetzt sein. • Zukünftige Verkäufe einer großen Anzahl von Ausgegebenen Aktien durch die Cerberus Aktionäre oder die GoldenTree Aktionäre oder die Erwartung des Marktes hinsichtlich solcher Verkäufe können dazu führen, dass der Kurs der Ausgegebenen Aktien fällt. • Die Ausgegebenen Aktien wurden bisher nicht öffentlich gehandelt, und es besteht keine Garantie, dass sich nach der Börsenzulassung ein liquider Markt für die Aktien entwickelt oder bestehen bleibt. • Der Kurs und das Handelsvolumen der Ausgegebenen Aktien könnten erheblich schwanken, und Anleger könnten ihre Anlage ganz oder teilweise verlieren. • Zukünftige Kapitalerhöhungen könnten die Beteiligung verwässern und zu erheblichen Abwertungen der Ausgegebenen Aktien führen. • Die Fähigkeit der Gesellschaft, Dividenden zu zahlen oder die anvisierte Dividendenausschüttungsquote zu

erreichen, hängt vor allem vom Mittelzufluss von ihren Tochtergesellschaften ab, und die Gesellschaft könnte in zukünftigen Geschäftsjahren nicht in der Lage sein, Dividenden zu zahlen, da sie aufgrund von Beschränkungen aus anwendbaren Gesetzen und Vorschriften, weil sie sich dazu entscheidet, Kapital für Akquisitionen zurückzuhalten oder aus anderen Gründen keinen ausschüttungsfähigen Bilanzgewinn hat.

- Als Folge der Börsenzulassung der Gesellschaft wird sich die BAWAG Gruppe zusätzlichen Verwaltungsanforderungen gegenübersehen und höhere laufende Kosten auf sich nehmen.
- Anleger, die eine andere Referenzwährung als den Euro haben, werden durch eine Anlage in die Ausgegebenen Aktien einem Wechselkursrisiko ausgesetzt.
- Die Rechte von Aktionären einer österreichischen Aktiengesellschaft können von den Rechten von Aktionären von unter anderen Rechtsordnungen organisierten Gesellschaften abweichen.
- Eine Aussetzung des Handels mit den Ausgegebenen Aktien kann den Aktienpreis nachteilig beeinflussen.

E. Angebot

E.1	**E.1 Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/ des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Die Gesellschaft erhält keine Erlöse aus dem Angebot (wie unten in E.3 definiert). Die Gesamtkosten und -ausgaben des Angebots (wie unten in E.3 definiert) und der Börsenzulassung werden voraussichtlich etwa € 83,9 Millionen (unteres Ende), € 86,9 Millionen (Mitte) bzw. € 89,9 Millionen (oberes Ende) betragen und von PSH getragen werden, außer der unter dem Übernahmevertrag (wie unten in E.3 definiert) zahlbaren Provision, die von allen Verkaufenden Aktionären anteilig getragen werden. Falls und soweit PSH diese Kosten nicht tragen kann, werden die Cerberus Aktionäre und die GoldenTree Aktionäre diese Kosten anteilig tragen. Die Verkaufenden Aktionäre erhalten die Erlöse aus dem Verkauf der Verbindlichen Aktien, und die Verkaufenden Aktionäre (außer PSH und bestimmte Minderheitsaktionäre) erhalten die Erlöse aus dem möglichen Verkauf der Mehrzuteilungs-Aktien in dem Umfang, in dem die Greenshoe Option (wie unten in E.3 definiert) ausgeübt wird. Die Höhe der Erlöse und die Kosten dieses Angebots (wie unten in E.3 definiert) sind vom Angebotspreis, der auch die Höhe der zu zahlenden Provisionen der Konsortialbanken (wie unten in E.4 definiert) bestimmt, und der Zahl der im Angebot (wie unten in E.3 definiert) platzierten Aktien abhängig. Die Gesellschaft schätzt, dass bei einer Platzierung am unteren Ende, in der Mitte und am oberen Ende der Preisspanne für das Angebot (wie unten in E.3 definiert) (die "**Preisspanne**"), der Bruttoerlöse der Verkaufenden Aktionäre (unter der Annahme der Platzierung der maximalen Anzahl von Verbindlichen Aktien und der vollständigen Ausübung der Greenshoe Option (wie unten in E.3 definiert)) ca. € 1.892 Millionen (unteres Ende), € 1.992 Millionen (Mitte) bzw. € 2.093 Millionen (oberes Ende) betragen würde.

		Unter der Annahme, dass der Angebotspreis am unteren Ende, in der Mitte und am oberen Ende der Preisspanne liegt, die maximale Anzahl der Verbindlichen Aktien platziert wird und die Greenshoe Option (wie unten in E.3. definiert) vollständig ausgeübt wird und dass weiterhin die ermessensabhängige Provision von bis zu € 33,1 Millionen (unteres Ende), € 34,9 Millionen (Mitte) bzw. € 36,6 Millionen (oberes Ende) in voller Höhe gezahlt wird, wird die Provision der Konsortialbanken (wie unten in E.4 definiert) € 56,8 Millionen (unteres Ende), € 59,8 Millionen (Mitte) beziehungsweise € 62,8 Millionen (oberes Ende) betragen. Unter der Annahme, dass die maximale Anzahl der Verbindlichen Aktien platziert wird und die Greenshoe Option (wie unten in E.3. definiert) vollständig ausgeübt wird, schätzt die Gesellschaft, dass die Nettoerlöse der Verkaufenden Aktionäre circa € 1.808 Millionen (unteres Ende), € 1.905 Millionen (Mitte) beziehungsweise € 2.003 Millionen (oberes Ende) betragen würden. Anlegern werden keine Kosten von der Gesellschaft oder den Konsortialbanken (wie unten in E.4 definiert) im Zusammenhang mit ihrer Funktion als Konsortialbanken in Rechnung gestellt.
E.2a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse.**	Die Gesellschaft beabsichtigt ferner, durch die geplante Zulassung der Ausgegebenen Aktien zum Amtlichen Handel besseren Zugang zum Kapitalmarkt zu erreichen. Außerdem könnte die Gesellschaft, im Anschluss an die Zulassung der Ausgegeben Aktien zum Amtlichen Handel, bei zukünftigen M&A-Transaktionen weitere Aktien als Akquisitionswährung ausgeben. Der aus dem Angebot (wie unten in E.3 definiert) resultierende Erlös fließt nicht der Gesellschaft zu.
E.3	**Beschreibung der Angebotskonditionen.**	Die Angebotenen Aktien werden in einem internationalen Angebot (das "**Angebot**") angeboten, bestehend aus (i) einem öffentlichen Angebot an Privatanleger und institutionelle Anleger in Österreich und (ii) einer Privatplatzierung an ausgewählte institutionelle Anleger außerhalb Österreichs, einschließlich einer Privatplatzierung an qualifizierte institutionelle Käufer in den Vereinigten Staaten aufgrund der "**Rule 144A**" des Wertpapiergesetzes der Vereinigten Staaten (U.S. Securities Act von 1933) in seiner aktuell gültigen Fassung ("**Securities Act**") sowie an bestimmte andere institutionelle Investoren außerhalb der Vereinigten Staaten aufgrund der "Regulation S" des Securities Act. Die Angebotenen Aktien wurden und werden nicht gemäß dem Securities Act oder den Wertpapiergesetzen einer anderen Rechtsordnung der Vereinigten Staaten registriert und dürfen – außer aufgrund einer Befreiung von den Registrierungspflichten gemäß dem Securities Act oder in einer Transaktion, die diesen Registrierungspflichten nicht unterliegt, und im Einklang mit allen anwendbaren Wertpapiergesetzen eines Bundesstaats oder einer anderen Rechtsordnung der Vereinigten Staaten – nicht in den Vereinigten Staaten angeboten, verkauft oder in sonstiger Weise übertragen werden. **Angebotszeitraum** Der Zeitraum, in dem die Anleger Kaufangebote für die Angebotenen Aktien abgeben können, beginnt am

12. Oktober 2017 und endet voraussichtlich am 24. Oktober 2017 um oder um etwa 14:00 Uhr (Mitteleuropäischer Sommerzeit) für institutionelle Anleger. Privatanleger können ihre Kaufangebote nur bis zum 23. Oktober 2017 (einschließlich) abgeben.

Privatanlegern, die beabsichtigen Angebotene Aktien zu erwerben, wird empfohlen, ihre Bank, ihren Broker oder ihren Finanzberater zu weiteren Details zum Prozedere des Erwerbs der Angebotenen Aktien zu kontaktieren.

Preisspanne und Angebotspreis; Zuteilung

Die Preisspanne, innerhalb derer Kaufangebote abgegeben werden können, beträgt € 47,00 bis € 52,00 je Aktie. Die Cerberus Aktionäre und die GoldenTree Aktionäre werden den Angebotspreis zusammen mit den Joint Global Coordinators und Joint Bookrunners (wie unten in E.4 definiert) auf der Grundlage der Kaufangebote, die in einem Bookbuilding-Verfahren gesammelt wurde, voraussichtlich am oder um den 24. Oktober 2017 bestimmen (die "**Preisfestsetzung**"). Im Rahmen des Bookbuilding-Verfahrens sammeln die Konsortialbanken Kauforder von Investoren zu verschiedenen Preisen innerhalb der Unter- und Obergrenze der Preisspanne. Diese Order können von den bietenden Investoren bis zum Ende des Bookbuilding-Verfahrens abgeändert werden. Die während des Bookbuilding-Verfahrens erhaltenen Order werden anhand der gebotenen Preise, des jeweiligen Anlagehorizonts und unter der Berücksichtigung weiterer Faktoren ausgewertet. Die Zuteilung der Angebotenen Aktien für Privatanleger und institutionelle Investoren wird nach Beratung mit den Joint Global Coordinators und Joint Bookrunners beschlossen. Die Entscheidung wird letztlich nach alleinigem Ermessen gemeinsam von den Cerberus Aktionären und GoldenTree Aktionären getroffen. Die Zuteilung erfolgt auf Grundlage der Qualität der einzelnen Investoren und der Order der Investoren sowie anderer wichtiger Zuteilungskriterien, die nach Beratung mit den Joint Global Coordinators und Joint Bookrunners bestimmt werden (wie unten in E.4 definiert). Dadurch ist es möglich, dass Investoren, die eine Order abgegeben haben, keine Aktien oder weniger als die in ihrer Order vorgesehene Anzahl an Aktien zugeteilt werden. Dies geschieht beispielsweise, wenn der Preis, für den der Investor eine Order zum Kauf von Aktien abgegeben hat, niedriger als der endgültige Angebotspreis ist oder das Angebot überzeichnet wurde. Insbesondere, wenn sich herausstellt, dass das Platzierungsvolumen nicht ausreicht, um alle erteilten Order zum endgültigen Angebotspreis auszuführen, halten sich die Konsortialbanken (wie unten in E.4 definiert) das Recht vor, Orderzurückzuweisen oder nur teilweise auszuführen.

Änderung der Angebotskonditionen

Die Cerberus Aktionäre und die GoldenTree Aktionäre behalten sich das Recht vor, nach Beratung mit den Joint Global Coordinators und Joint Bookrunners (wie unten in E.4 definiert) die Anzahl der angebotenen Aktien zu verringern oder zu erhöhen, die obere oder untere Begrenzung der Preisspanne zu senken oder zu erhöhen und/oder den Angebotszeitraum zu verlängern oder zu verkürzen. Die Cerberus Aktionäre und die GoldenTree Aktionäre können die Gesamtzahl der in diesem Angebot angebotenen Aktien maximal bis zu derjenigen Gesamtzahl

		von Aktien erhöhen, für die eine Zulassung zum Handel im regulierten Markt an der Wiener Börse in Übereinstimmung mit diesem Prospekt oder eventuell veröffentlichten Nachträgen beantragt wurde. Der Übernahmevertrag zwischen der Gesellschaft, den Verkaufenden Aktionären und jeder der Konsortialbanken (wie unten in E.4 definiert) (der "**Übernahmevertrag**") wird regeln, dass die Joint Global Coordinators und Joint Bookrunners (wie unten in E.4 definiert), handelnd für die Konsortialbanken, unter bestimmten Umständen den Übernahmevertrag kündigen können, und zwar auch, nachdem die Angebotenen Aktien zugeteilt und an der Börse notiert wurden, bis zur Lieferung und Zahlung der Aktien. Wenn der Übernahmevertrag gekündigt wird, wird das Angebot nicht durchgeführt. In diesem Fall sind bereits erfolgte Zuteilungen an Anleger unwirksam, und Anleger haben keinen Anspruch auf Lieferung. Ansprüche in Bezug auf bereits erbrachte Erwerbsprovisionen und im Zusammenhang mit der Zeichnung entstandene Kosten eines Anlegers richten sich allein nach dem Rechtsverhältnis zwischen dem Anleger und dem Finanzinstitut, bei dem er sein Kaufangebot abgegeben hat. Sollten Anleger sogenannte Leerverkäufe vorgenommen haben, so tragen sie das Risiko, ihre Lieferverpflichtungen nicht erfüllen zu können. **Lieferung und Abrechnung** Die Angebotenen Aktien werden voraussichtlich am oder um den 30. Oktober 2017 gegen Zahlung des Angebotspreises geliefert. **Stabilisierungsmaßnahmen, Mehrzuteilung und Greenshoe Option** Im Rahmen möglicher Stabilisierungsmaßnahmen, die ergriffen werden können, um den Marktpreis der Ausgegebenen Aktien zu stützen und dadurch einem etwaigen Verkaufsdruck entgegenzuwirken, können den Anlegern zusätzlich zu den Verbindlichen Aktien bis zu 5.250.000 Mehrzuteilungs-Aktien zugeteilt werden ("**Mehrzuteilung**"). Im Zusammenhang mit möglichen Mehrzuteilungen werden Goldman Sachs International für Rechnung der Konsortialbanken (wie unten in E.4 definiert) im Wege eines Wertpapierdarlehens bis zu 5.250.000 Mehrzuteilungs-Aktien zur Verfügung gestellt; diese Anzahl an Aktien wird 15% der Anzahl an Verbindlichen Aktien nicht übersteigen. Im Zusammenhang mit möglichen Mehrzuteilungen werden die Verkaufenden Aktionäre (außer PSH und bestimmte Minderheitsaktionäre) den Konsortialbanken (wie unten in E.4 definiert) eine Option einräumen, die entliehenen Aktien gegen Zahlung des Angebotspreises abzüglich vereinbarter Provisionen zu erwerben ("**Greenshoe Option**"). Die Greenshoe Option kann für eine Anzahl an Ausgegeben Aktien bis zu der Anzahl von Aktien ausgeübt werden, die im Rahmen der Mehrzuteilung platziert worden sind. Die Greenshoe Option kann von Goldman Sachs International in der Funktion als Stabilisierungsmanager von dem Tag, an dem die Ausgegebenen Aktien im regulierten Markt der Wiener Börse notiert werden, bis spätestens 30 Kalendertage danach ausgeübt werden.
E.4	**Beschreibung aller für die Emission/das Angebot**	Im Zusammenhang mit dem Angebot und der Börsenzulassung der Ausgegebenen Aktien stehen die

wesentlichen Interessen, einschließlich Interessenkonflikten.	Konsortialbanken (wie unten definiert) in einem vertraglichen Verhältnis mit der Gesellschaft und den Verkaufenden Aktionären. Die Konsortialbanken (wie unten definiert) handeln im Hinblick auf das Angebot für die Gesellschaft und die Verkaufenden Aktionäre und koordinieren die Strukturierung und Abwicklung des Angebots. Weiterhin handeln Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, und Morgan Stanley bei diesem Angebot als Joint Global Coordinators und Joint Bookrunners (die "**Joint Global Coordinators und Joint Bookrunners**"). Merrill Lynch International, Barclays Bank PLC und UBS sind als zusätzliche Joint Bookrunners ernannt worden. COMMERZBANK Aktiengesellschaft und Raiffeisen Centrobank AG sind als Co-Lead Manager ernannt worden (gemeinsam mit den Joint Global Coordinators und Joint Bookrunners, den zusätzlichen Joint Bookrunners und den Co-Lead Managers, die "**Konsortialbanken**"). Darüber hinaus handelt die Raiffeisen Centrobank AG als 'Specialist' für die Ausgegebenen Aktien. Raiffeisen Centrobank AG wurde als Zahlstelle benannt. Die Konsortialbanken erhalten bei erfolgreichem Abschluss des Angebots eine Provision sowie weitere Zahlungen. Die Höhe der Provision hängt von der Größe des Angebots und der Höhe des Angebotspreises ab. Die Konsortialbanken haben daher ein Interesse daran, dass so viele Aktien wie möglich, zum höchstmöglichen Preis platziert werden. Die Raiffeisen Centrobank AG erhält keine Gebühren als 'Specialist' und wird nur für ihre Tätigkeit als Zahlstelle nach Abschluss des Angebots vergütet. Die Konsortialbanken und mit ihnen verbundene Unternehmen haben in der Vergangenheit, im Rahmen ihres üblichen Geschäftsbetriebs in ihrer Funktion als Finanzinstitute, Dienstleistungen für die BAWAG Gruppe und/oder die Verkaufenden Aktionäre erbracht und können dies bei Gelegenheit auch in der Zukunft tun. Dies umfasst insbesondere Beratungsleistungen bei M&A-Transaktionen, Finanztransaktionen und Effektenlombardkrediten (margin loans) in Bezug auf die Ausgegebenen Aktien. Es ist möglich, dass sie in der Zukunft als Eigen- oder Fremdgeschäft für eine oder mehr als eine Partei handelnd, Kauf- und Verkaufspositionen (Long- oder Shortpositionen) in Aktien oder anderen Wertpapieren der BAWAG Gruppe halten und möglicherweise selbst Aktien oder andere Wertpapiere oder Darlehen der BAWAG Gruppe für eigene oder fremde Rechnung handeln. Im Falle eines erfolgreichen Angebots ist es möglich, dass auch die anderen Konsortialbanken als Finanzberater für zukünftige Transaktionen ausgesucht werden oder als Darlehensgeber oder Konsortialführer für zukünftige Finanzierungstransaktionen oder im eigenen Namen oder im Namen ihrer Kunden Aktien oder andere Wertpapiere oder Darlehen der BAWAG Gruppe handeln. Im Zusammenhang mit dem Angebot können die Konsortialbanken und jedes mit ihnen jeweils verbundene Unternehmen außerdem für eigene Rechnung Aktien im Rahmen des Angebots erwerben und solche Aktien oder damit verbundene Rechte für eigene Rechnung behalten,

		kaufen oder verkaufen, und solche Aktien oder damit verbundene Rechte in einem anderen Zusammenhang als mit dem Angebot anbieten oder verkaufen. Zusätzlich können bestimmte Konsortialbanken und mit ihnen verbundene Unternehmen mit Anlegern Finanzierungsvereinbarungen (einschließlich Swap- oder Differenzgeschäfte) vereinbaren, wobei die Konsortialbanken (oder ihre verbundenen Unternehmen) bei Gelegenheit Aktien der Gesellschaft erwerben, halten oder veräußern können. Zum Datum dieses Prospekts halten mehrere Fonds und Kunden, die bzw. deren Bestände von Cerberus und GoldenTree verwaltet werden, zusammen über PSH rund 94% der Ausgegebenen Aktien und haben dementsprechend Einfluss auf Entscheidungen, die die Gesellschaft in Bezug auf das Angebot trifft. Den Verkaufenden Aktionären wird der Erlös aus dem Angebot zufließen. Die letztlich die Cerberus Aktionäre und GoldenTree Aktionäre beherrschenden Personen sind diese Fonds und Kunden unter der Verwaltung von Cerberus bzw. GoldenTree. Folglich haben solche Fonds und Kunden, die jeweils unter der Verwaltung von Cerberus bzw. GoldenTree stehen, ein Interesse am Erfolg des Angebots zu den bestmöglichen Konditionen. Am 12. Juli 2017 schlossen sämtliche Mitglieder des Vorstands der Gesellschaft sowie bestimmte leitende Angestellte der BAWAG P.S.K. Aktienterminkaufverträge mit den Cerberus Aktionären, den GoldenTree Aktionären, PSH, Cerberus Capital Management LP und GoldenTree Asset Management LP ab. Unter diesen Aktienterminkaufverträgen können diese Personen als Käufer die Lieferung von Ausgegebenen Aktien abhängig von einer Steigerung der Bewertung der Gesellschaft verlangen, wobei das Maximum an Ausgegebenen Aktien bei Bewertung von € 5,05 Milliarden (oder höher) zu liefern wäre. Es kann nicht ausgeschlossen werden, dass der Anreiz zur Steigerung der Bewertung der Gesellschaft, der den Rechten der Käufer unter den Aktienterminkaufverträgen inhärent ist, für den Käufer kleiner wird oder entfällt, der seinen Anteilsbesitz nach Ablauf einer 360-tägigen Lock-Up-Frist veräußert. Infolgedessen mögen die Käufer einen Anreiz haben, sich stärker auf eine kurzfristige Erhöhung der Bewertung der Gesellschaft zu fokussieren, einschließlich einer Platzierung der Angebotenen Aktien zum höchstmöglichen Preis, als auf die längerfristige Wertsteigerung.
E.5	**Name der Person/des Unternehmens, die/das das Wertpapier zum Kauf anbietet.**	Die Angebotenen Aktien werden von den Konsortialbanken zum Kauf angeboten. Privatanlegern, die beabsichtigen Angebotene Aktien zu erwerben, wird empfohlen, ihre Bank, ihren Broker oder ihren Finanzberater zu Details zum Prozedere des Erwerbs der Angebotenen Aktien zu kontaktieren.
	Lock-up-Vereinbarungen; die beteiligten Parteien und Lock-up-Frist.	Die Gesellschaft wird sich im Übernahmevertrag gegenüber den Konsortialbanken verpflichten, vorbehaltlich bestimmter Ausnahmen, in dem Zeitraum beginnend ab dem Datum des Übernahmevertrages bis 180 Tage nach dem ersten Handelstag der Ausgegebenen Aktien der Gesellschaft am Amtlichen Handel, ohne vorherige schriftliche Zustimmung von Goldman Sachs International und Morgan Stanley, die nicht unbillig verweigert oder hinausgezögert werden darf,

von bestimmten Maßnahmen zur Kapitalerhöhung oder Maßnahmen mit ähnlichem Effekt abzusehen.

Darüber hinaus werden sich die Verkaufenden Aktionäre im Rahmen des Übernahmevertrages, gesondert und nicht gemeinsam, gegenüber den Konsortialbanken verpflichten, wie unten näher erläutert und vorbehaltlich bestimmter Ausnahmen, in einem bestimmten Zeitraum, ohne vorherige schriftliche Zustimmung von Goldman Sachs International und Morgan Stanley, die nicht unbillig verweigert oder hinausgezögert werden darf, von bestimmten Transaktionen in Bezug auf die Ausgegebenen Aktien abzusehen und sich nicht an bestimmten Maßnahmen in Bezug auf das Grundkapital der Gesellschaft zu beteiligen. Die Lock-up-Frist beginnt am Datum des Übernahmevertrages und endet (i) im Falle der Cerberus Aktionäre und der GoldenTree Aktionäre 450 Tage nach dem ersten Handelstag der Ausgegebenen Aktien am Amtlichen Handel, wobei die Verpflichtung drei verschiedene Phasen vorsieht: Während die Verpflichtung in der ersten Phase (die 180 Tage nach dem ersten Handelstag der Ausgegebenen Aktien am Amtlichen Handel endet) für alle von diesen Aktionärsgruppen gehaltenen Ausgegebenen Aktien gilt, sind in der zweiten Phase (die am Tag nach der ersten Phase beginnt und 180 Tage danach endet) und in der dritten Phase (die am Tag nach der zweiten Phase beginnt und 90 Tage danach endet) bestimmte Ausgegebene Aktien aus dem Anteilsbesitz der Cerberus Aktionäre bzw. der GoldenTree Aktionäre von der Lock-up-Verpflichtung ausgeschlossen; und (ii) im Falle der anderen Verkaufenden Aktionäre (einschließlich PSH), 180 Tage nach dem ersten Handelstag der Ausgegebenen Aktien am Amtlichen Handel.

Der Übernahmevertrag wird weitere Einzelheiten in Bezug auf den Lock-up der Cerberus Aktionäre oder der GoldenTree Aktionäre und die zulässigen Verkäufe während der zweiten und dritten Phasen der Verpflichtung sowie der damit verbundenen Bedingungen und Anforderungen vorsehen.

Insbesondere finden die oben beschriebenen Lock-up-Beschränkungen im Fall der Cerberus Aktionäre und der GoldenTree Aktionäre keine Anwendung (i) auf Veräußerungen zum Zweck der Verpfändung oder Belastung von Ausgegebenen Aktien an oder zugunsten einer Konsortialbank (oder mit ihnen verbundene Unternehmen), die als Effektenlombardkreditgeber einen Effektenlombardkredit (*margin loan*) gewährt hat und (ii) auf Veräußerungen für die Zwecke der Übertragung von Ausgegebenen Aktien im Rahmen einer Vollstreckung einer Sicherheit über Ausgegebene Aktien, die von den Cerberus Aktionären oder die von GoldenTree Aktionäre zugunsten eines Effektenlombardkreditgebers im Zusammenhang mit einem Effektenlombardkredit (*margin loan*) gewährt werden, sofern mit einem vorgesehenen Erwerber dieser Ausgegebenen Aktien im Rahmen einer Vollstreckung der Sicherheit vereinbart wird, dass dieser für den Rest der ersten Phase der Lock-up-Frist an die gleichen Beschränkungen gebunden ist.

Des Weiteren wird sich jedes Mitglied des Vorstands der Gesellschaft im Einklang mit dem Übernahmevertrag,

		gesondert und nicht gemeinsam, verpflichten, vorbehaltlich bestimmter Ausnahmen, in dem Zeitraum beginnend ab dem Datum des Übernahmevertrages bis 360 Tage nach dem ersten Handelstag der Ausgegebenen Aktien der Gesellschaft am Amtlichen Handel von bestimmten Transaktionen in Bezug auf die Ausgegebenen Aktien abzusehen oder bestimmte Maßnahmen in Bezug auf die Ausgegebenen Aktien nicht durchzuführen.
E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Fall eines Zeichnungsangebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung für den Fall, dass sie das Angebot nicht zeichnen.**	Entfällt. Das Angebot besteht lediglich aus Ausgegebenen Aktien und wird zu keiner Verwässerung führen. Der Netto-Buchwert der BAWAG Gruppe nach IFRS zum 30. Juni 2017 betrug € 3.349 Millionen (€ 3.348 Millionen unter Außerachtlassung der nicht beherrschenden Anteile). Dies entspricht einem Anteil von € 33,48 (unter Außerachtlassung der nicht beherrschenden Anteile) pro Ausgegebener Aktie.
E.7	**Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Mit Ausnahme der üblichen Bankgebühren werden den Anlegern keine Aufwendungen durch die Gesellschaft oder die Konsortialbanken in Rechnung gestellt.

3 RISK FACTORS

An investment in the Existing Shares is subject to a number of risks. Prospective investors should carefully consider the risk factors set out below, together with the other information contained in this Prospectus, before making an investment decision with respect to investing in the Existing Shares. The occurrence of any of these risks, individually or together with other circumstances and uncertainties currently unknown to BAWAG Group, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. The order in which the risk factors are presented is not an indication of the likelihood of said risks actually occurring, nor of the significance or degree of the risks or the scope of any potential impairment to BAWAG Group's business. The risks mentioned could materialize individually or cumulatively.

Various statements in the following risk factors are based on assumptions or judgments and they contain forward-looking statements, estimates and predictions that could turn out to be incorrect (see also "FORWARD-LOOKING STATEMENTS"). Furthermore, other risks, facts or circumstances not presently known to BAWAG Group or that BAWAG Group might currently deem immaterial, could prove to be important and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. The value of the Existing Shares could decrease as a result of the occurrence of any of these risks, and investors could lose all or part of their investment.

3.1 Risks related to BAWAG Group's business and the industry in which it operates

3.1.1 BAWAG Group's business success is dependent on the political and general macroeconomic conditions of the economies in which BAWAG Group is active.

BAWAG Group is exposed to risks resulting from the general macroeconomic and political conditions of the economies in which it operates both generally and as they specifically affect financial institutions. The last several years have been characterized by increased political uncertainty as Europe in particular has been impacted by its sovereign debt crisis, the outcomes of the referenda in the U.K. on EU membership and in Italy on contemplated constitutional reform, the refugee crisis and the increasing attractiveness to voters of populist and anti-austerity movements. The severity of the European sovereign debt crisis appears to have abated somewhat over recent years as actions by the ECB, rescue packages from EU member states and a general economic recovery appear to have stabilized the situation in Europe to some extent, however, political uncertainty has nevertheless continued to be at an elevated level in recent periods.

The elevated political uncertainty could trigger the unwinding of certain aspects of European integration that have benefitted BAWAG Group's businesses; for example, based on the EU principle of single authorization, BAWAG Group may offer banking services throughout the EU in reliance on its authorization by the FMA, which is a benefit it could lose as a result of the unwinding described above. The prospects for national structural reform and further integration among EU member states, both viewed as important tools to reduce the eurozone's vulnerabilities to future crises, appear to have worsened. These factors may materially reduce BAWAG Group's business success due to reduced levels of economic activity and output in light of the increased uncertainty.

In Austria, general elections will be held on October 15, 2017. Any change in the current political landscape in Austria may also have a material impact on the legal framework for BAWAG Group's business including matters of bank regulation or taxation. In addition, the rise of populist parties and/or increasingly protectionist measures by governments within and outside the EU may negatively affect the global economy and restrict international trade flows, all of which could materially adversely affect BAWAG Group's operations. There is also uncertainty with respect to relations between the United States and other economic areas following the 2016 presidential election in the United States. Even though the global financial markets have initially reacted relatively positively to the potential growth-enhancing measures the new U.S. presidential administration has announced, markets could, however, react more negatively to these actions as policy plans begin to take shape or, conversely, if they are not implemented, for example if they do not quickly result in anticipated increased economic growth or if protectionist measures dampen global growth.

The most important economies for BAWAG Group are the economies of Austria, the Federal Republic of Germany ("**Germany**"), the U.K., the United States, the Republic of Ireland ("**Ireland**") and the French Republic ("**France**"). BAWAG Group is exposed to general and industry-specific risks to which banks operating in the above-mentioned countries are exposed. Accordingly, the emergence of adverse economic conditions in any or all of those regions may in turn have an adverse impact on BAWAG Group. Any deterioration in global and/or relevant regional economic conditions could result in reductions in business activity, lower demand for BAWAG Group's products and services, reduced availability of credit, increased funding costs and/or decreased asset values.

The banking markets of Western Europe and the United States are currently characterized by low (or even negative) interest rates coupled with high competition leading, for example, to low margins in the banking industry in general. The factors and events that could negatively influence the business success of BAWAG Group include, without limitation, a general economic downturn, increasing unemployment, inflation, hyperinflation, deflation, currency fluctuations, falling real estate prices, insolvencies, as well as specific aspects such as energy cost/oil price, terrorist attacks or financial crises. Specifically, any negative market developments in the real estate markets in which it holds real estate portfolios could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. Indirectly, BAWAG Group could be similarly negatively affected by adverse developments of the commodity prices as the economic success of certain of its corporate customers directly correlates with the development of the commodity prices, particularly the oil prices. Moreover, BAWAG Group is in competition with other financial institutions in Austria as well as in the remaining DACH region, which includes Germany and Switzerland, and generally on an international level. Market conditions have been particularly challenging to financial institutions in recent years and they may further deteriorate.

Furthermore, the number of world-wide geopolitical conflicts has increased significantly in the last few years, as the recent conflicts in North Korea, Qatar, Syria and Ukraine demonstrate. Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term. These conflicts have a significant impact on the economies of countries directly or indirectly involved and on customers, investors and sponsors who are located, or who have assets or conduct business, in such countries.

Any deterioration of the general economic climate, the economic situation of the financial services sector, the future exacerbation or expansion in geopolitical conflicts and any resulting deterioration of the financial standing of BAWAG Group's customers generally could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.2 An "exit" by any current member of the EU or the eurozone would be unprecedented, and the consequences currently cannot be assessed. Such event may have a material adverse effect on the financial system and the general economic climate in the EU, including Austria, and a significant negative impact on BAWAG Group's business, financial condition, results of operations and prospects.

The result of the U.K.'s referendum to leave the EU and the subsequent initiation of the legal process pursuant to Article 50 of the Lisbon Treaty that must end in March 2019 with the U.K. exiting the EU, commonly referred to as "**Brexit**", may have significant, unpredictable consequences for the economies and financial markets in both the U.K. and the EU and, thus, on the business of BAWAG Group. Given these and other uncertainties in connection with the U.K.'s withdrawal from the EU, it is difficult to determine the exact impact on BAWAG Group over the long term. BAWAG Group is also unable to determine with any precision the impact of Brexit on its business operations in the U.K. in the short-term, as there remains limited clarity on the details or timing of the changes. In view of its London-based origination team for its International Business segment, a Brexit could negatively affect the origination of international lending business, for example if the origination became subject to additional regulatory requirements or the team had to be relocated to a member state of the EU. In addition, BAWAG Group's business operations in the U.K. largely consist of a performing residential mortgage loan portfolio which means that it would be primarily affected if Brexit resulted in an increase of defaults of the borrowers in its residential mortgage loan portfolio or if a substantial devaluation of the GBP which force it to write down the value of its portfolio. Regardless of the ultimate terms and date of exit from the EU, the referendum has created significant political, financial and macroeconomic turmoil and uncertainty. Therefore, Brexit could result in significant macroeconomic deterioration including, in particular, increased volatility of foreign exchange markets (as evidenced by the result of the U.K. general election of June 8, 2017), a further devaluation of the euro against other leading currencies and a decrease of the gross domestic product in the EU. Any of these developments could have a severe adverse impact on the economic situation and consumer climate in the EU, including Austria and Germany (for which the U.K. is an important trade partner).

Moreover, the Brexit vote has also given a voice to political parties challenging European integration and other EU countries could follow suit and also leave the EU in the future, or threaten to leave unless certain concessions are made, especially if Brexit or any other member country's exit does not materially negatively affect such country. The resulting uncertainty could have significant effects on the value of the euro and on the prospects for the member states' financial stability, which in turn could lead to a significant deterioration of the sovereign debt market. If one or more members of the eurozone defaults on their debt obligations or decides to leave the common currency, this would result in the reintroduction of one or more national currencies. This and the resulting need to restate existing contractual obligations could have unpredictable financial, legal, political and social consequences, leading not only to significant losses on sovereign debt but also on private debt in that country. Given the highly interconnected nature of the financial system within the eurozone, and the levels of exposure BAWAG Group has to counterparties holding sovereign and private debt around Europe, its ability to plan for such a contingency in a manner that would reduce its exposure to non-material levels is limited. If the overall economic climate deteriorates as a result of one or more departures from the eurozone, BAWAG Group's businesses could be materially adversely affected, and, if overall business levels decline or it is forced to write down significant exposures among its various businesses, BAWAG Group could incur substantial losses.

The decision of any member of the eurozone to exit the common currency would be unprecedented, and its financial, legal, political and social consequences cannot be assessed with reliability. As the financial system of the eurozone is highly integrated, a significant systematic impact would be likely.

Any negative consequences of a member state leaving the eurozone would also have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects being predominantly active in the eurozone. In particular, without limitation, it may be required to take impairments on its sovereign debt exposures and other assets in full or in part, and may suffer from a general deterioration of the economic activity both within and outside the eurozone.

The effectiveness of the two EU stability mechanisms which have been introduced, the European Financial Stability Facility and the European Stability Mechanism, has not yet been proven, and may be threatened by further rating downgrades of EU member states since their ratings are based on the ratings of the financing members. An exit by any current member of the eurozone may also negatively affect presently financially stable and sound eurozone countries including Austria, Germany and France.

3.1.3 BAWAG Group is exposed to the risk of defaults of other financial institutions or sovereign debtors. Insolvencies in the financial sector or the default of sovereign debtors could, due to the worldwide interdependency of the financial market, have an adverse effect on the entire financial sector, including BAWAG Group.

The financial distress of large credit institutions, insurance undertakings, other financial institutions or sovereign debtors has the potential to adversely affect the financial markets and counterparties in general. This results from the fact that the business activities of large financial institutions such as trading and clearing are closely interwoven. Uncertainty in respect of the financial stability of large financial institutions or their default may cause liquidity restrictions, losses and defaults of other market participants. Similar effects may result from the default of sovereign debtors, particularly if these relate to developed economies in Europe or North America. These systemic risks may adversely affect those financial market participants and intermediaries with whom BAWAG Group maintains business relationships, including credit institutions, investment firms, exchanges and providers of clearing services. The insolvency and non-viability of systemically important or relevant financial institutions, as occurred in the course of the financial crisis, a potential default of sovereign debtors or the materialization of any other systemic risk could have a material adverse effect on the entire financial sector including BAWAG Group's business, financial condition, results of operations and prospects. Specifically BAWAG Group's business is subject to the risk that borrowers and other contractual partners may not be able to meet their obligations to BAWAG Group due to insolvency, application of resolution tools by resolution authorities, lack of liquidity, global or local economic issues, operational failure, political developments or other reasons.

Bonds issued by the public sector have recently been exposed to considerable market price fluctuations. Several eurozone states have been affected, in particular Greece, Ireland, Portugal, Spain and Italy, as well as various other countries, especially in Eastern Europe.

If the values of public sector bonds decline, undergo haircuts dictated by political decisions, or under certain circumstances even fall to zero in the event of insolvency of the public sector entities, thus generating a loss in cash value, this would lead to impairments or force BAWAG Group to realize losses if it decides to sell the relevant instrument, and will have direct adverse effects on BAWAG Group's income statement.

An insolvency of a public sector entity could also lead to general instability and contagious effects, which could lead to adverse effects on BAWAG Group's financial condition and results of operations even if BAWAG Group has no direct exposure to such entity. Approximately 60% of the loans and bonds (measured by book value as of December 31, 2016) of the segment DACH Corporates & Public Sector business have been extended to government or public sector borrowers.

BAWAG Group is also exposed to credit risk in relation to banks based in Spain, Italy and other states severely affected by the financial market crisis, as well as other banks with operations focusing on these countries. The continued economic viability of some of these counterparties may become questionable, especially if economic conditions worsen. Financial institutions are likely to be particularly affected by a deterioration of macroeconomic conditions because of, among other things, increasing defaults, the negative revaluation of assets pledged as collateral and increased withdrawals of customer deposits.

Furthermore, some of these counterparties currently rely heavily on refinancings from central banks. Central banks could reduce their refinancing programs or introduce stricter eligibility criteria. In addition, central banks are starting to end quantitative easing programs and raise interest rates, which is likely to make future refinancings more expensive. Other banks, depending on the development of real estate markets in these countries, may have to perform substantial write-downs on their real estate loan portfolios. Furthermore, the efforts of some of these countries to consolidate their national budgets are also having adverse effects on their economies, which may have negative consequences for the economic situation of banks in these countries.

The realization of one or all of the risks described above could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.4 BAWAG Group is exposed to intense competition, particularly in its home market of Austria, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The financial services industry is subject to significant competition, particularly in Austria, BAWAG Group's home market. In the corporate and public sector lending business, BAWAG Group faces competition from an increasingly diverse mix of lenders with the entry of non-bank financial institutions such as insurance companies, debt funds, sovereign wealth funds, private equity firms, high net worth individuals and family offices. In the consumer banking business, including competition to lend to consumers and competition for consumer deposits, BAWAG Group primarily competes with other banks operating in Austria and its other markets. However, continued technological advancements and developments in e-commerce make it possible for non-bank financial institutions and other new entrants to offer products and services that traditionally have been offered exclusively by banks, including competition for loans, deposits and other products and services offered by BAWAG Group. Such non-bank competitors may be subject to less or more favorable regulation than traditional banks. In particular, BAWAG Group faces growing competition from financial services technology companies (so-called "**Fintechs**"). The introduction of Directive (EU) 2015/2366 of the European Parliament and of the Council of November 25, 2015 on payment services in the internal market (known as PSD2) may also enable the emergence of new competitors, which could reduce the relevance of traditional bank platforms and weaken brand relationships. In addition, competition in the financial services industry could be substantially distorted by government intervention, such as the Austrian bank levy (*Bankenstabilitätsabgabe*) which was introduced in 2011.

In accordance with its strategy, BAWAG Group generally strives to avoid offering low-profit or even loss-making products as currently offered by many of its competitors. However, intense competition forces BAWAG Group to continuously review the pricing of its products and it cannot be assured that BAWAG Group will be able to price its products in a manner that ensures their profitability or at least lead to cross-selling opportunities. Furthermore, customers are focusing increasingly on the various services offered in connection with banking products. Further increases in customer expectations could require BAWAG Group to increase its investments in the development of strong and efficient services in both physical and digital channels. Any failure to manage the competitive dynamics to which it is exposed could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.5 BAWAG Group is dependent on the confidence of its customers in the banking system and the business of BAWAG Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

One of the core funding strategies of BAWAG Group are stable customer deposits. Their availability depends on various external factors beyond its control such as the confidence of the public in the economy, the financial sector, and BAWAG Group. A change of such confidence levels, as well as an increase in general interest rates or the deterioration of economic conditions may limit the ability of BAWAG Group to maintain an adequate level of customer deposits on acceptable terms, which may have a material adverse effect on its ability to fund its operations (see also "*3.1.15 BAWAG Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.*"). In 2005 and 2006, due to unsuccessful investments which related primarily to interest rate and currency swaps, BAWAG Group experienced a liquidity crisis which threatened the economic survival and viability of BAWAG Group. BAWAG Group takes these past events into account when conducting its liquidity stress tests and reviewing its recovery plan, however, the recurrence of such a liquidity crisis cannot be excluded. Significant outflows of deposits could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. In extreme situations such as "bank runs" BAWAG Group may even become unable to fund its operations.

3.1.6 A downgrading of BAWAG P.S.K.'s credit rating or the rating relating to specific instruments issued by it (such as covered bonds) could increase its refinancing costs and could have a material adverse effect on BAWAG Group's liquidity, profitability, business, financial condition, results of operations and prospects.

BAWAG Group's operating subsidiary BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft ("**BAWAG P.S.K.**") is rated by Moody's Deutschland GmbH ("**Moody's**") with a long-term issuer rating of A2 with a positive outlook and Fitch Ratings Limited ("**Fitch**") with a long-term issuer rating of A- with a stable outlook.

Despite these ratings and "positive" and "stable" outlooks, BAWAG P.S.K.'s credit ratings could be subject to downgrades in the future. As a precondition for assigning a certain credit rating, credit rating agencies may expect the issuers to comply with certain criteria and covenants. Any non-compliance by BAWAG P.S.K. with these criteria and covenants may lead to rating downgrades. Such downgrades could contribute to an increase in BAWAG Group's refinancing costs and BAWAG Group is unable to predict the extent of the effects that would follow a credit downgrade of BAWAG P.S.K. These would depend on a number of factors including whether a downgrade affects financial institutions across the industry or on a regional basis, or is intended to reflect circumstances specific to BAWAG P.S.K.; any actions its senior management may take in advance of or in response to the downgrade; the willingness of counterparties to continue to do business with it; any impact of other market events and the state of the macroeconomic environment more generally. In particular, should any of the major credit rating agencies lower BAWAG P.S.K.'s credit rating to a level considered sub-investment grade, significant aspects of its business model would be materially and adversely affected.

Additionally, under many of the contracts governing derivative instruments to which BAWAG P.S.K. is a party, a downgrade could require it to post (additional) collateral, lead to terminations of contracts with accompanying payment obligations for BAWAG P.S.K. or give counterparties additional remedies. Especially, taking potential credit rating downgrades into account when conducting stress tests and drawing up the recovery plan does not guarantee that the negative effects anticipated as part of these tests and plans will not be exceeded in case of an actual credit rating downgrade.

Therefore, possible future downgrades in the financial rating of BAWAG P.S.K. could have a material adverse effect on BAWAG Group's liquidity, profitability, business, financial condition, results of operations and prospects.

3.1.7 BAWAG Group is exposed to the risk of loss due to changes in foreign exchange rates, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group performs some of its business activities in non-European countries and European countries which are not members of the eurozone, including originating loans and purchasing loan portfolios and may also include the expansion of BAWAG Group's retail business into the U.K. and other foreign countries. Transactions in foreign currencies, such as CHF, GBP and USD, are exposed to various risks. Revenue in other currencies may be reduced as a result of its conversion into euro, and expenses in currencies other than the euro may increase due to conversion. Cash flow hedges which BAWAG Group regularly uses to address these risks may prove to be ineffective to manage these risks as they are based on certain assumptions (relating, among other things, to the repayment profile of the hedged cash flows) which may prove incorrect. Assets denominated in foreign currencies may have to be depreciated in the case of a devaluation of the currency and it cannot be guaranteed that hedges which BAWAG Group employs (using foreign exchange derivatives and refinancing facilities in the same currency) adequately protect it against the accompanying risks. Moreover, risk-weighted assets denominated in foreign currencies may have to be recalculated in the case of an appreciation of the currency in which they are denominated. The risk of increasing risk-weighted assets denominated in foreign currencies is not hedged by BAWAG Group.

In addition, until 2006 BAWAG Group extended loans to retail customers which are denominated in a currency that is different from the customer's local currency ("**FX Loans**"). For example, a portion of BAWAG Group's retail mortgage loans (€ 1.5 billion as of June 30, 2017) are FX Loans which have been extended to Austrian customers and are denominated in CHF. Should the value of the local currency decline sharply versus the foreign currency of such FX Loans, the effective cost of the FX Loan to the local customers would substantially increase which may cause the customer to default on its repayment obligations. This in turn would force BAWAG Group to reclassify such FX Loans as non-performing and take corresponding impairment charges on these loans. Furthermore, a portion of BAWAG Group's retail mortgage loans, especially the abovementioned CHF retail mortgage loans, are bullet repayment loans (*endfällige Verbraucherkredite*) which are secured by repayment vehicles (*Tilgungsträger*) (e.g., savings, life insurances or other assets mainly denominated in EUR intended to secure a customer's bullet repayment at the end of term of a loan, "**Repayment Vehicles**") and collateral over real estate. The Repayment Vehicles are regularly valued at market prices, and any adverse movements in the market price of these Repayment Vehicles may negatively affect the position of the loan secured by such Repayment Vehicle. This may increase the risk of a debtor defaulting under the loan.

These risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.8 BAWAG Group is exposed to various forms of market risks, including interest rate risk and credit spread risks, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group is subject to various forms of market risks, including the risk of losses due to open risk positions and unfavorable developments in market variables such as interest rates, foreign exchange rates, share prices or volatility. Market risks can arise in connection with trading activities (the short-term sale and purchase of securities) and non-trading activities (the entry into and maintenance of positions in assets held by BAWAG Group for other reasons).

BAWAG Group's market risks predominantly (but not solely) relate to non-trading risks activities, particularly credit spread risks and interest rate risks. For example, the credit quality of a financial instrument held by BAWAG Group may decrease which would likely lead to a fall of such instrument's market price and have a negative effect on the assets of BAWAG Group. Market risks also arise from the interest rate environment and potential changes in rates.

Low interest rates may, for example, disincentivize customers from holding deposits with BAWAG Group, which could reduce the availability of funding from deposits. A continuing low interest rate environment such as the current environment may also put pressure on deposit Net Interest Margins throughout the industry, negatively affecting BAWAG Group's margins. At extremely low interest rates, margins can be particularly compressed as the interest rates on loans decline while the rates that banks pay on deposits by law cannot be lower than 0%.

Increases in interest rates may cause the market price of BAWAG Group's assets to decline. In the event of sudden large or frequent increases in interest rates, BAWAG Group may not be able to reprice both its rates and liabilities quickly enough, which may negatively affect margins and overall revenue in the short term, particularly if the maturities of BAWAG Group's assets on one hand and its liabilities on the other hand do not match. Furthermore, historically low interest rates have and continue to allow the financing of real estate at low costs, which may result in inflated real estate prices. Subsequent rises in interest rates could lead to a sharp increase in borrowers becoming unable to repay their loans and to sharp falls in property values which could negatively affect the value of their collateral. In addition, unfavorable market developments could adversely affect the fair value of BAWAG Group's derivatives, assets and liabilities.

Due to the nature of its business activities and its exposure to market risks, an unfavorable development of market variables, such as interest rates, foreign exchange rates, share prices or volatility, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.9 BAWAG Group is exposed to risks concerning customer and counterparty credit quality which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group is exposed to many financial products, counterparties and obligors whose credit quality can have a significant adverse impact on BAWAG Group's earnings and the value of assets on BAWAG Group's balance sheet. BAWAG Group is at risk that the economic situation of its counterparties deteriorates and that its counterparties are or become incapable to fulfill their financial obligations or such financial obligations become subject to a bail-in. Furthermore, BAWAG Group is exposed to additional risk, such as tenant risk in relation to mortgage loans, which could adversely affect a counter-party's ability to fulfill its obligations to BAWAG Group. BAWAG Group is also exposed to the risk that it may have to provide involuntary credit extensions to counterparties who are unable to attain refinancing elsewhere. As part of the ordinary course of its operations, BAWAG Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures, including assessments of security rights and value of collateral. This process involves complex judgments, including the determination of certain assumptions and effect of macro-economic conditions on the ability of customers to repay their loans and on the realization of security. BAWAG Group may fail to adequately identify or anticipate factors which could adversely affect customer or counterparty credit quality, including those factors resulting from value changes due to country-specific political and economic conditions (country risks) and from cluster formation with regards to risk factors or counterparties. The failure of customers or counterparties to meet their commitments as they fall due may result in higher impairments on the fair value of assets or hedging derivatives and/or have a negative impact on BAWAG Group's lending portfolio and income. This could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.10 BAWAG Group's monitoring of its loan portfolio is dependent on the effectiveness, and efficient operation, of its processes including credit grading and scoring systems and there is a risk that these systems and processes may not be effective in evaluating credit quality.

BAWAG Group uses processes including credit grading and scoring systems in evaluating the credit quality of its customers and to facilitate the early identification and management of any deterioration in loan quality. Changes in credit quality information are reflected in the credit grade of the relevant borrower with the resulting grade influencing the management of that borrower's loans. BAWAG Group pays special attention to NPLs, loans accounted for on a non-accrual basis, restructured loans and other loans identified as potential problem loans. However, there is a risk that BAWAG Group's credit grading and scoring systems and processes may not be effective in evaluating the credit quality of customers or in identifying changes in loan quality in a timely manner. Any such failure in the timely identification of loan impairment or its credit grading and scoring system generally could result in inadequate provisioning or have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.11 BAWAG Group uses models across many of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated.

BAWAG Group uses models across many, though not all, of its activities including, but not limited to, capital management, credit grading, provisioning, valuations, liquidity, pricing and stress testing. BAWAG Group also uses financial models to determine the fair value of derivative financial instruments, financial instruments through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available for sale in accordance with International Financial Reporting Standards, as adopted by the European Union (''IFRS''). Since BAWAG Group uses risk measurement models based on historical observations, there is a risk that they underestimate or overestimate exposure to various risks to the extent that future market conditions deviate from historical experience. In addition, the risk measurement models may fail to take into account certain other relevant factors (both historical and current), or the models may be otherwise incomplete. Furthermore, as a result of evolving regulatory requirements, the importance of models across BAWAG Group's business has been heightened and their importance may continue to increase, in particular because of reforms introduced by the Basel Committee on Banking Supervision, including the framework known as Basel IV. Certain of BAWAG Group's models are in the process of being implemented and subject to ongoing regulatory review.

Should BAWAG Group's models not accurately estimate its exposure to various risks, it may experience unexpected losses. BAWAG Group may also incur losses as a result of decisions made based on inaccuracies in these models, including the data used to build them or an incomplete understanding of these models. If BAWAG Group's models are not, or deemed not to be, effective in estimating its exposure to various risks or determining the fair value of its financial assets and liabilities or if its models prove to be inaccurate, its business, financial condition, results of operations and prospects could be materially adversely affected.

3.1.12 A portion of the assets and liabilities on BAWAG Group's balance sheet comprises financial instruments that it carries at fair value, with changes in fair value recognized in the income statement. As a result of such changes, BAWAG Group may incur losses in the future which could have a material adverse effect on BAWAG Group.

A portion of the assets and liabilities on BAWAG Group's balance sheet comprises financial instruments that it carries at fair value, with changes in fair value recognized in the income statement. Fair value is defined as the price at which an asset or liability could be exchanged in an arm's length transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. If the value of an asset carried at fair value declines (or the value of a liability carried at fair value increases) a corresponding unfavourable change in fair value is recognized in the income statement.

Observable prices or inputs are not available for certain classes of financial instruments. Fair value is determined in these cases using valuation techniques which BAWAG Group believes to be appropriate for the particular instrument. The application of valuation techniques to determine fair value involves estimation and management judgment, the extent of which will vary with the degree of complexity of the instrument and liquidity in the market. Management judgment is required in the selection of the appropriate parameters, assumptions and modelling techniques. The fair value of such instruments may not accurately reflect the actual values of these instruments in specific market environments and BAWAG Group may consequently be required to adjust the fair values accordingly, potentially requiring BAWAG Group to recognise losses in the future which could have a material adverse effect on BAWAG Group.

3.1.13 The international business of BAWAG Group is subject to credit risks, market risks, concentration risks, transfer risks, convertibility risks and political risks.

BAWAG Group also conducts certain transactions outside of Austria with key international accounts within a pre-defined risk framework. Outside of Austria, BAWAG Group focuses predominantly on Germany, other Western European countries and the United States. BAWAG Group's focus on Germany is evidenced by the acquisition of SÜDWESTBANK Aktiengesellschaft ("**Südwestbank**") which is expected to close in the fourth quarter 2017 or first quarter 2018.

The business activities of BAWAG Group and its subsidiaries and associated companies outside of Austria are subject to the typical risks of international business activities which arise from, among other things, the necessary development and expansion of the business infrastructure, different economic conditions and different legal and taxation systems. For example, in connection with its retail business BAWAG Group must deploy significant resources to observe different consumer protection regimes. Furthermore, in connection with its real estate business BAWAG Group must deal with different legal regimes regarding the enforcement of security interest over real estate assets.

The *easygroup* segment holds performing residential mortgage loan portfolios in France and the U.K. which contributed 41% of that segment's profit before tax in the financial year 2016. In respect of both portfolios, BAWAG Group is subject to, among others, credit risks (see also "*3.1.9 BAWAG Group is exposed to risks concerning customer and counterparty credit quality which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.*"). In particular, the mortgages securing the loans may not be sufficient to cover losses in case the real estate prices deteriorate. In addition, in view of amortization of the loan portfolios, BAWAG Group faces the risk of failing to find reinvestment opportunities generating equivalent net interest income at an equivalent level of risk. This reinvestment pressure may cause BAWAG Group to enter into transactions with lower margins and/or higher risk profiles. The reinvestment pressure may intensify, for example, if borrowers opt for an early repayment of their loans.

Furthermore, as of June 30, 2017, 10% and 50%, respectively, of the residential mortgage loan portfolios in France and the U.K. are bullet loans. These are loans that only require interest payments during the term of the loan, with the principal to be repaid in full at the end of the term. In most cases, the entire principal must either be repaid or refinanced at the end of the term, which results in repayment or refinancing risks which are greater than those of loans where the monthly installments consist of interest and principal components. In view of the full payment falling due at maturity of the loans, bullet loans represent a higher default risk at maturity compared to amortizing loans. Further, in the U.K. in particular it is common market practice for the principal to be repaid using the proceeds from the sale of the underlying real estate. Any adverse movements in the market price of the underlying real estate may increase the credit risk resulting from the gap between sales proceeds and outstanding loan amount.

Moreover, BAWAG Group's international business is subject to greater credit risk concentrations than its retail business particularly due to high volume financings which it extends to corporate customers as part of its international business.

In addition, as the economic success of certain international corporate customers directly correlates with the development of commodity prices and, in particular, oil prices, BAWAG Group's international business could be negatively affected by adverse developments in commodity prices.

The international business of BAWAG Group also exposes it to a greater degree of political, social and economic risks as described in more detail above ("*3.1.1 BAWAG Group's business success is dependent on the political and general macroeconomic conditions of the economies in which BAWAG Group is active.*").

A materialization of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.14 Low prices and profitability of real estate could materially impair BAWAG Group's ability to compensate loan defaults by foreclosing on collateral.

Real estate comprises over 65% of BAWAG Group's collateral portfolio as of June 30, 2017. A significant devaluation of commercial real estate could have adverse effects on the banking sector, including BAWAG Group, which could be particularly negatively affected by any such devaluation due to its exposure to commercial real estate in Austria, Ireland, the U.K., the United States, Germany and the Netherlands. Reduced income of its customers from commercial real estate may result in payment defaults and write-offs on assets held by BAWAG Group.

Due to its heavy reliance on real estate collateral located in Austria, France, the U.K. and Ireland, BAWAG Group would also be negatively affected by devaluations of such real estate. Political developments, such as Brexit, may lead to devaluations of real estate prices.

In the case of foreclosures, real estate collateral may not be sufficient to cover secured claims due to declining market values. Resulting write-offs could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.15 BAWAG Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.

Liquidity risk encompasses the risk that BAWAG Group is unable to fulfill its payment obligations at the time they become due. BAWAG Group is subject to the liquidity risk of not having access to sufficient liquidity at acceptable terms as and when required (refinancing risk), and that BAWAG Group, due to insufficient market funding or due to market disturbances, is not able to, or may only with a loss, terminate or settle transactions (market liquidity risk).

BAWAG Group's funding strategy is dependent upon its stable customer deposits base (see also "*3.1.5 BAWAG Group is dependent on the confidence of its customers in the banking system and the business of BAWAG Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations* and *prospects.*"). Of the € 25.4 billion retail and corporate savings products, € 23.5 billion are variable deposits which can be withdrawn on short notice. Therefore, BAWAG Group is subject to the risk of material deposit outflows which may be outside of its control.

If BAWAG Group is unable to meet its funding requirements, it may be forced to sell liquid assets at economically unfavorable terms in order to attempt to restore its liquidity position. Market liquidity risk may materialize where inadequate market liquidity or a market disruption limit BAWAG Group's ability to easily monetize assets. Refinancing risk could also result from a rollover of funding positions coupled with a longer period of increased refinancing costs. In general, BAWAG Group is exposed to the risk of higher funding costs if and to the extent its asset/liability management does not adequately address mismatches of maturities, interest rates, currencies or other parameters. In addition, external funding sources may become – possibly within a very short time period – insufficient. The ongoing extraordinary liquidity provisioning and asset buying by the European Central Bank ("**ECB**") may reflect continued structural problems in the refinancing markets. Furthermore, a change in the ECB's policies could undermine market confidence and liquidity in Europe and, therefore, destabilize the markets. In addition, a recession in Europe could endanger economic recovery and lead to a loss of trust in the stability of the financial markets.

BAWAG Group also issues covered bonds as part of its funding strategy. A lack of liquidity in the market for covered bonds would therefore negatively affect BAWAG Group. Such a lack could, for example, result from the loss of confidence following an insolvency of other issuers of covered bonds. Furthermore, the ECB's ongoing intervention, which also includes the purchase of covered bonds, has contributed to a tightening of the spreads of covered bonds. The interest spreads may widen significantly or demand for covered bonds may decline after the ECB ceases its intervention.

The financial crisis resulted in pressure on banks' creditworthiness, often irrespective of their financial strength, and has had a similar effect on other capital markets participants. A market disruption of substantial magnitude could restrict BAWAG Group's access to the capital markets and limit its ability to obtain short, medium and long-term refinancing on acceptable terms and meet regulatory capital requirements.

Any deterioration in BAWAG Group's liquidity could have a material adverse effect on its business, financial condition, results of operations and prospects.

3.1.16 If BAWAG Group fails to adapt to rapid technological changes its competitiveness could decline.

BAWAG Group's IT and communications systems are critical to its success. In particular, BAWAG Group relies heavily on its proprietary online banking platform, which requires constant ongoing development and investment to reflect new technological developments and changes in industry practice, including as a result of regulatory changes and innovation in products and services. If BAWAG Group is unable to manage upgrades, developments or changes to its proprietary online banking platform and other IT systems, it could be subject to operational disruption, reputational damage, regulatory scrutiny, and significant additional costs.

The online direct banking industry is subject to rapid technological change with new product and service introductions, evolving regulatory requirements and industry standards, and constantly changing merchant and consumer needs and expectations. For example, new online-based market entrants may be able to offer similar products at more attractive prices due to lower fixed costs. Furthermore, online-based market entrants may introduce new products or services, and BAWAG Group may be unable to introduce competing products quickly or at reasonable cost, or at all. In order to remain competitive and grow in this rapidly evolving market, BAWAG Group must continually adapt and enhance its existing technology and product offerings, and continue to develop new products to meet the particular service requirements of specific markets or types of customers. To do this, BAWAG Group needs to anticipate consumer banking demands and technological trends in a wide variety of markets and industries and devote appropriate resources to technology, including research and development. Efforts to enhance and improve existing products and technologies, as well as develop new ones, involve inherent risks, and BAWAG Group may not be able to anticipate these developments and enhancements successfully. BAWAG Group may also fail to accurately foresee developments in online banking or other technologies, which could lead it to make investments in technologies and products that do not gain market acceptance or generate sufficient returns. There is also a risk that BAWAG Group may not have adequate financial or technological resources, or that it may not be able to secure appropriate products and distribution channels to satisfy changing consumer demand. Any delay in the delivery of new products or services, or the failure to differentiate BAWAG Group's products and services from those of current or future competitors, could render them less desirable to its customers, or possibly even obsolete.

If BAWAG Group is unable to develop technologies internally, it may have to license or acquire technologies from third parties, which may be costly or not possible at all. Any failure to remain innovative or to introduce new or upgraded technologies that are responsive to changing consumer or regulatory requirements may have a material adverse effect on BAWAG Group's competitiveness and could cause it to lose its market position in core markets, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

As part of its technology strategy BAWAG Group has developed partnerships with select Fintechs. For example, in cooperation with its Fintech partner FinReach, BAWAG Group offers new customers online-based account migration services in order to facilitate the migration of their accounts maintained with other banks to accounts opened with BAWAG Group. BAWAG Group intends to continue to seek such partnerships to enhance its digital products and add value for its customers, but there can be no assurance that it will be able to identify suitable partners or that such partnerships will be successful. BAWAG Group also intends to continue to internally develop new proprietary Fintech capabilities. However, assessing BAWAG Group's business and future prospects in the Fintech industry is challenging, in light of the risks and difficulties described above.

3.1.17 If BAWAG Group fails to promote and maintain its brands in a cost-effective manner, BAWAG Group may lose market share and its revenues may decrease.

BAWAG Group believes that developing and maintaining awareness of its brands, including "BAWAG P.S.K.", "easybank" and "Qlick", in a cost-effective manner is critical to attracting new and retaining existing customers to its online offering. The successful promotion of its brands will depend largely on the effectiveness of its marketing efforts and the experience of customers with its products and services. BAWAG Group's efforts to build its brands have involved significant expense, and it is likely that its future marketing efforts will require it to incur significant additional expense. These brand promotion activities may not result in increased revenues and, even if they do, any increases may not offset the expenses incurred. BAWAG Group may incur additional marketing costs as it expands into new markets under its new brand name "Qlick" or where its brands BAWAG P.S.K. or easybank are currently less prominent, and it may not be successful in establishing its brand in new markets. If BAWAG Group fails to successfully promote and maintain its brands or if BAWAG Group incurs substantial expenses in an unsuccessful attempt to promote and maintain its brands, BAWAG Group may lose its existing customers to its competitors or be unable to attract new customers. The materialization of any of these risks, alone or in combination, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.18 Negative publicity due to customer complaints, litigation or other factors, and a negative public perception of BAWAG Group's business, could cause demand for its products to significantly decrease.

BAWAG Group's reputation is very important to it being able to attract new and retain existing customers, as well as for cross-selling additional products. There can be no assurance that BAWAG Group will continue to maintain a good relationship with its customers or avoid negative publicity. Negative publicity about BAWAG Group, its industry or its management, including the quality and reliability of its online offering and the effectiveness of its credit decision-making system, could adversely affect its reputation and the confidence in, and the use of, its online offering.

Such harm to BAWAG Group's reputation can arise due to many reasons, including:

- failure by BAWAG Group to meet minimum standards of service and quality;
- employee misconduct;
- inadequate protection of customer information, compliance failures and security breaches;
- inability effectively to manage and resolve complaints from customers or third-party service providers, even if inaccurate;
- business practices of BAWAG Group or of its cooperation partners which, or which are perceived to, unduly infringe consumer rights; and
- litigation or regulatory actions resulting from relationships with customers, including with consumer protection bodies such as the Consumer Information Association (*Verein für Konsumenteninformation*), competitors or regulatory authorities.

Any damage to BAWAG Group's reputation arising from negative publicity, or a negative perception of online banking in general, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.19 BAWAG Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results while its interim results may not be an indicator of its full year results.

BAWAG Group may not be able to achieve its business and strategic objectives in the future, which could lead to a material decline in profits and materially affect dividend payments and the results of operations in general. This could result from developments or technological advances in the relevant markets, in particular competition from certain financial technology companies that may create disruptive competition for BAWAG Group's existing business models. The various elements of BAWAG Group's strategy may be individually unnecessary or collectively incomplete. BAWAG Group's strategy may also prove to be based on flawed assumptions regarding the pace and direction of future change across the banking sector including a misjudgement of customer behaviour and demand. BAWAG Group's management may adopt strategic decisions including the implementation of new cost-saving or efficiency programs, new product or service concepts and other types of strategic measures which may not render the anticipated returns within the expected timeframe or at all. This may lead, among others, to wasted resources or a need for further investments. Moreover, in the context of the adoption and implementation of strategic decisions, the allocation or re-allocation of financial resources and staff to one or more functions or activities may in hindsight prove to be disadvantageous for BAWAG Group, for example if a certain business area is left with insufficient qualified staff following a re-allocation of personnel. An on-site inspection of the ECB in respect of two international retail mortgage loan portfolios and portfolios of BAWAG Group's International Business in early 2017 found, among other findings, that BAWAG Group's strategy focussed on cost-reduction had a negative impact on the adequacy of its staffing in this area. It cannot be excluded that future cost-efficiency and similar measures may result in similar shortcomings in the affected business areas. In addition, any aspect of BAWAG Group's strategy that is dependent upon the value and competitive advantage conveyed by intellectual property rights (including trademarks) may not be adequately protected or deemed to be enforceable.

BAWAG Group's financial performance also depends upon the growth of the geographical and industry markets in which it currently operates, as well as its ability to expand within these markets and into new markets. It can be difficult and costly to attract new customers within existing markets because of the reluctance of many customers to change providers, including as a result of costs directly associated with transitioning to new providers and the risk of downtime or loss of functionality. BAWAG Group's growth strategy focuses on select acquisitions intended to develop or acquire new products and services (such as BAWAG Group's acquisition of the card issuing business of SIX Payment Services Austria and investments in the functionality of its software). BAWAG Group may not be able to successfully implement these strategies, and even if it does, they may not provide BAWAG Group with the value and benefits it anticipates.

The business strategy of BAWAG Group is subject to continual review. Despite its current business strategy BAWAG Group may, among other things, fail to successfully:

- identify and conclude attractive acquisitions;
- integrate acquired entities, e.g. Südwestbank;
- expand its retail business into Germany; and

- migrate older current account models with low or negative profit margins into the new more profitable KontoBox models.

Furthermore, BAWAG Group's Audited Consolidated Financial Statements and the other historical financial information included in this Prospectus do not necessarily indicate what BAWAG Group's results of operations, financial position, cash flows or costs and expenses will be in the future. In addition, the results of operations for interim periods included in this Prospectus are not necessarily indicative of the results to be expected for the full year or any future period. For example, BAWAG Group may be unable to sustain existing levels of RoE and deliver further growth. In addition, there may be a failure to implement envisaged further improvements to the balance sheet, as well as a failure to replenish the loan book at the same terms. This may negatively affect future RoE levels.

3.1.20 A termination or reduction of BAWAG Group's close cooperation with its distribution partners could have a material adverse effect on its business, financial condition, results of operations and prospects.

Partnerships play an important role for BAWAG Group. A cornerstone of its strategy is to cooperate with product providers in Austria on a long-term basis. For example:

- in cooperation with its partner the Austrian Post (*Österreichische Post Aktiengesellschaft*, the "**Austrian Post**"), BAWAG Group offers its financial products (including deposit taking) exclusively in the branches of Austrian Post, although, however, BAWAG Group intends to terminate the underlying cooperation agreement prior to December 31, 2017 with the termination taking effect as of January 1, 2021 (see "*3.1.21 The anticipated termination of the cooperation agreement with Austrian Post may not result in the intended cost savings and may negatively impact the customer experience during the transition period or as a result of a smaller branch network resulting in the loss of customers and business opportunities or may have other adverse effects on BAWAG Group.*");
- through BAWAG P.S.K. Versicherung AG, a joint venture company that is 25% owned by BAWAG Group and 75% owned by the Generali Group, BAWAG Group offers its customers insurance products;
- in cooperation with its partner Amundi, BAWAG Group offers its customers investment products;
- in cooperation with its partner Western Union, BAWAG Group offers person-to-person money transfer, money orders, business payments and commercial payment services; and
- in cooperation with its partner Wüstenrot, BAWAG Group offers building savings loans.

If any such cooperation agreement was to be terminated or its scope to be narrowed and BAWAG Group was not able to substitute such cooperations by other means (e.g., through its own distribution channels), or if the targets or plans cannot or only in part be realized, it could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.21 The intended termination of the cooperation agreement with Austrian Post may not result in the intended cost savings and may negatively impact the customer experience during the transition period or as a result of a smaller branch network resulting in the loss of customers and business opportunities or may have other adverse effects on BAWAG Group.

BAWAG P.S.K.'s network of 433 branches is currently operated under a cooperation agreement with Austrian Post, whereby Austrian Post provides certain financial services, including cash deposits, payments and withdrawals, on behalf of BAWAG P.S.K. at branches owned or leased by Austrian Post. Austrian Post has declined to engage on a restructuring proposal by BAWAG P.S.K. In the absence of a negotiated restructuring of the arrangements with Austrian Post, BAWAG Group intends to deliver a notice of termination of the cooperation agreement on or prior to December 31, 2017, which results in a three-year transition period and an effective termination of the cooperation agreement as of January 1, 2021 (unless a shorter transition period is agreed upon). During the transition period, BAWAG Group intends to create a standalone branch network of approximately 100 branches through the opening of approximately 25 new branches to supplement the 74 branches that BAWAG P.S.K currently owns or leases itself. Furthermore, BAWAG Group would hire and train new advisors to replace, in part, a portion of the advisors currently provided by Austrian Post, although at significantly reduced staffing levels. Currently approximately 300 of the nearly 1000 advisors in the BAWAG network are Austrian Post employees, trained and managed by BAWAG. All personnel in the highly dispersed network would be consolidated to the target network.

There are significant uncertainties arising from this strategy. In particular, adequate locations for new branches may be unavailable, and the costs and efforts associated with setting up such a network and hiring and training personnel may be significantly greater than anticipated. As a result, the transition to the independent network may be difficult. In addition, because much of BAWAG P.S.K.'s current branch network is staffed by Austrian Post personnel, the level of service provided in the branch network may be adversely affected prior to the effective date of the termination. If customer service is negatively affected during the three-year transition period, BAWAG P.S.K. may experience a loss of customers and business opportunities that is greater than anticipated.

Although BAWAG Group intends to terminate the agreement because it believes that a smaller, focused network controlled by it would result in significantly lower costs and better customer service, the realized cost savings may be significantly less and the loss of customers and business opportunities may be significantly greater than anticipated. The reduction in the number of branches may negatively impact customer experience and revenues, particularly if the transition of customers to online and mobile services is less rapid than expected. The streamlining of the network may also lead to greater customer loss than expected, including the loss of deposits held by these customers, if BAWAG Group fails to retain customers associated with branches that are consolidated. Finally, any dispute relating to the termination may lead to additional litigation with Austrian Post.

If BAWAG Group fails to achieve its business and strategic objectives by streamlining its branch network or if its related assumptions prove to be incorrect, the termination of the cooperation agreement could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.22 Due to any inadequacy or failure of internal procedures, employees and systems or due to external events unexpected losses could occur (operational risk).

BAWAG Group is exposed to unexpected losses caused by the operational risk of inadequacy or failure of internal procedures, employees or systems or due to external risks including legal risk. This encompasses (i) internal risks including theft and fraud by employees, development and process failures, business interruptions or system failures, and lack of sufficient human resources and (ii) external risk factors such as property damage and fraud by customers. These risks increase in volatile, illiquid or in developing markets. The legal inability of BAWAG Group's counterparties to close a transaction, contractual deficiencies, incomplete documentation of transactions or legal particularities and amendments in the legal foundations of a company could lead to claims/receivables from a transaction not being legally enforceable which could result in BAWAG Group incurring losses which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

In addition, employee misconduct such as fraud is not always possible to deter or prevent. BAWAG Group is, in particular, exposed to the risk that its employees misappropriate customer funds. BAWAG Group has taken precautions in order to detect such unlawful actions. The precautions that BAWAG Group has taken to detect and prevent such activities may not be effective, which could subject BAWAG Group to additional liability and have a negative effect on BAWAG Group's business, financial condition, results of operations and reputation.

3.1.23 BAWAG Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions.

BAWAG Group outsources significant parts of its business to third-party suppliers. All decisions on the outsourcing of any business activities are taken in line with a framework which BAWAG Group has implemented for this purpose. The most significant outsourcing arrangements relate to the outsourcing of various IT operations, certain compliance functions and the management of real estate portfolios in France and the U.K. Outsourcing to third-party suppliers is crucial to the efficient operation of BAWAG Group. However, the outsourcing of services to third-party suppliers involves certain risks, including legal risks, performance risks, the suitability of the service provider, loss of know-how, service interruptions, lack of service quality, leaking of confidential information, sudden terminations of service contracts, insolvency of the provider or similarly disruptive events. Additionally, BAWAG Group may not be able to exercise the same level of control over third-party service providers as with its own employees, which could limit BAWAG Group's ability to ensure the quality of the service provided. These risks, if they materialize, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.24 Failure of BAWAG Group's IT systems could lead to a significant impairment of the business operations of BAWAG Group.

BAWAG Group's information technology division provides the majority of the IT services for its entities and product offerings, including its proprietary banking platform, in the areas of product pricing and products sales, assessing acceptable levels of risk exposure, determining product approvals, setting required levels of provisions and capital, providing and maintaining customer service (including payment services and other customer transactions) and maintaining regulatory requirements. To provide redundancy BAWAG Group operates two separate datacenters in Vienna, each of which is connected to the internet by two telecom providers via separate physical lines. However, a catastrophic event in Vienna could potentially disable both datacenters. In particular, BAWAG Group faces the risk of loss events due to the instability, malfunction or outage of its IT system and IT infrastructure. Such losses could materially affect BAWAG Group's ability to perform business processes and may, for example, arise from technical failures, human error, unauthorized access, cybercrime, natural hazards or disasters, or similarly disruptive events as well as from the erroneous or delayed execution of processes as either a result of system outages or degraded services in systems and IT applications. A delay in processing a transaction, for example, could result in an operational loss if market conditions worsen during the period after the error. IT-related errors may also result in the mishandling of confidential information, damage to BAWAG Group's computer systems, financial losses, additional costs for repairing systems, reputational damage, customer dissatisfaction or potential regulatory or litigation exposure. This could have a material adverse effect on BAWAG Group's reputation, business, financial condition, results of operations and prospects.

3.1.25 BAWAG Group's operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of customer information, damage BAWAG Group's reputation and lead to regulatory penalties and financial losses.

BAWAG Group is exposed to the risk of breaches of the security of its computer systems due to unauthorized access to network resources or other forms of cyber-attack or internet crime including the use of viruses and trojans. The increasing frequency and sophistication of recent cyber-attacks, as evidenced by the large-scale attack on computers based in Ukraine in June 2017 which then spread internationally, has resulted in an elevated risk profile for many organizations around the world. Such breaches could disrupt BAWAG Group's business, result in the disclosure of confidential information and create significant financial and/or legal exposure and could damage the reputation of BAWAG Group. BAWAG Group devotes significant resources towards the protection of its systems against such breaches, but it cannot be guaranteed that the protection measures BAWAG Group has taken will be effective against all threats, particularly against unknown future threats given the use of new technologies and increasing reliance on the Internet and the varying nature and evolving sophistication of such attacks. There is no assurance that BAWAG Group's security measures will provide absolute security. BAWAG Group's efforts to ensure the integrity of its systems may not be sufficient to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside BAWAG Group such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. If an actual or perceived breach of security occurs, customer perception of the effectiveness of BAWAG Group's security measures could be harmed which could result in the loss of customers.

Actual or anticipated attacks and risks may cause BAWAG Group to incur increased costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third party experts and consultants. The realization of any of the aforementioned risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.26 Investments of BAWAG Group may not yield a return, and the valuation of participations of BAWAG Group could make impairments necessary. The sale of participations may only be possible at a loss.

BAWAG Group holds in participations in stock exchange listed and non-stock exchange listed entities in its banking book and is dependent on investment income from these participations. These participations relate to leasing companies, real estate companies, financial institutions, payment services providers, energy suppliers and media companies. In addition to the risk that its investments may not generate income, BAWAG Group is also subject to the risks of devaluation and write-offs, because a deterioration in the financial situation of a participation may lead to a depreciation in value, or loss of this participation. The participation risk encompasses possible changes in the market value of non-consolidated associated companies, possible depreciation requirements relating to the value of the participation and poor profitability of non-consolidated associated companies. The participation risk does not relate to operating subsidiaries, because the risks applicable to these differ according to the specific type of risk and are therefore already taken into consideration under these risks. BAWAG Group performs yearly valuations of its participations. Any necessity to write-off participations in non-consolidated associated companies could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group has already disposed of several participations and is generally considering the sale of other participations. The sale price of such participations could be less than their book value, which could have a material adverse effect on BAWAG Group's profitability, business, financial condition, results of operations and prospects.

3.1.27 BAWAG Group may have difficulty in identifying and executing acquisitions, and both making acquisitions and avoiding them could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group considers acquisitions from time to time to support its business objectives and complement the development of its business in its existing and new geographic markets. For example, in 2016, BAWAG Group acquired start:bausparkasse and IMMO-BANK from the Volksbanken Group. Furthermore, in 2017, BAWAG Group (i) closed the acquisition of PayLife, the card issuing business of SIX Payment Services Austria, and (ii) signed the acquisition of Südwestbank. Such strategic transactions demand significant management attention and require BAWAG Group to divert financial and other resources that would otherwise be available for its existing business. Even though BAWAG Group reviews the companies, businesses, assets, liabilities or contracts it plans to acquire, it is generally not feasible for these reviews to be complete in all respects. As a result, BAWAG Group may fail to adequately assess risks and liabilities associated with acquired businesses and assume unanticipated liabilities. Furthermore, BAWAG Group may be unable to effectively settle liabilities that are unknown at the time of the acquisition, such as legacy tax claims and claims from former employees, among others. BAWAG Group may also fail to adequately assess the effect of an acquisition on its regulatory performance metrics, in particular its regulatory capital adequacy requirements or liquidity requirements under the applicable banking regulations. For example, the completion of the above-mentioned acquisitions of PayLife and Südwestbank are expected to result in a negative impact on BAWAG Group's CET1 ratio (Fully Loaded) of around 0.23% and 3.10%, respectively, as of December 31, 2017. If it later turns out that the original assessment by BAWAG Group underestimated an acquisition's effects on such regulatory requirements, so that the impact needs to be subsequently adjusted, and if the negative effect cannot be otherwise compensated, for example, through the profitability of its operations or the reduction of risk weighted assets, BAWAG Group may be unable to meet one or more of such regulatory requirements under the applicable regulations. In such case, the competent supervisory authority could, for example, suspend or limit the payment of dividends.

In addition, acquired businesses may not perform as well as expected, or may not achieve the expected results within the anticipated timeframe, and the benefits of an acquisition (including expected synergies) may take longer to realize than expected or may not be realized fully or at all. Moreover, the integration of acquired businesses is typically a complex, time consuming and expensive process. Such processes may take longer than anticipated or involve higher expenses than originally anticipated, and be subject to a number of uncertainties, such as costs and expenses associated with unexpected difficulties, a diversion of management's attention from BAWAG Group's daily operations and/or strategic business decisions, a potential loss of key employees and customers or an additional demand on management related to the increase in the size and scope of BAWAG Group's operations. Were BAWAG Group to announce or complete a significant business combination transaction, its share price could decline significantly if investors viewed the transaction as too costly or unlikely to improve its competitive position. Furthermore, acquisitions by BAWAG Group often require regulatory clearance which may delay or prevent the closing of signed acquisitions. For example, the closing of the acquisition of Südwestbank was subject to, *inter alia*, the approval by the German Federal Cartel Office (*Bundeskartellamt*), and is still subject to the ownership control clearance by the German Financial Supervisory Authority (*BaFin*), the German Central Bank (*Deutsche Bundesbank*) and ECB, and receipt of a foreign investment clearance certificate from the German Federal Ministry for Economic Affairs and Energy. There can be no assurance that these clearances will be obtained on a timely basis or if at all. In addition, BAWAG Group might have difficulty integrating any entity with which it combines its operations. Failure to complete announced business combinations or failure to integrate acquired businesses successfully into BAWAG Group could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. It could also affect investors' perception of BAWAG Group's business prospects and management, and thus cause its share price to fall. It could also lead to departures of key employees, or lead to increased costs and reduced profitability if BAWAG Group felt compelled to offer them financial incentives to remain. There can be no assurances that BAWAG Group will be able to successfully pursue, complete and integrate any future acquisition targets.

3.1.28 Resignation or loss of key personnel, including members of the Management Board, and possible difficulties in recruiting or retaining qualified employees could adversely affect BAWAG Group's ability to execute its strategy.

BAWAG Group's key personnel, i.e., the management of BAWAG Group and other members of its senior management, have been essential in establishing and implementing BAWAG Group's key strategies. In addition, BAWAG Group needs to attract new talent to be able to compete in the national and international banking market. Limitations on the remuneration policies of credit institutions, in particular on the variable elements of remuneration, as set forth in the CRD IV as implemented in the Austrian Banking Act (*Bundesgesetz über das Bankwesen* – "**BWG**") and the local regulations applicable to credit institutions, could impede BAWAG Group's efforts to retain or recruit highly qualified personnel. Furthermore, emerging competitors from the Fintech industry as well as employers in other industries competing for talent with BAWAG Group (such as consulting firms or auditors) or employers in other jurisdictions may not be subject to these limits on remuneration policies and could therefore be able to offer more attractive remuneration packages than BAWAG Group. If BAWAG Group is unable to retain the services of one or more members of its management, it may not succeed in attracting individuals with equal qualifications and comparable experience within a suitable time period and at adequate terms. The loss of management or other key personnel and failure in recruiting new replacing personnel could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.1.29 The interplay of several risk factors could lead to a mutual amplification of these risks (correlation risk).

Correlation risk can be understood as the possible adverse effects resulting from combinations and/or the interplay of similar or disparate risk factors or risk types, such as risks arising from loans made to the same customer, to a group of associated customers, to customers from the same region or branch or to customers with the same services and goods, or from the use of credit risk minimizing techniques and, in particular, from indirect large credits. Correlation risks can, in particular, amplify other risks described herein and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2 Risks related to regulatory, legal and tax matters

3.2.1 Past, ongoing and uncertain future reforms and initiatives in legislation or supervision, including additional and more stringent regulation and public sector influence on the financial sector, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

The business activities of BAWAG Group are subject to national, European and international legal frameworks as well as supervision by regulatory authorities in the relevant markets. The financial crisis has prompted the supervisory practice to act more rigorously, and the international standard setters such as, for example, the Basel Committee on Banking Supervision ("**BCBS**") and the Financial Stability Board (the "**FSB**") as well as national and European legislators, governments and regulatory authorities have adopted a variety of reforms of financial regulation to improve the ability of the financial sector to withstand future crises. Further reforms are pending or may still be proposed. The wide range of new laws, regulations, guidelines and other papers or current proposals includes, but is not limited to:

- early intervention and resolution powers of supervisory and resolution authorities to intervene in, and prior to, a crisis of banks, including the forced participation of creditors to bear losses and participate in a recapitalization (so-called bail-in),
- restrictions on the remuneration policies and practices of institutions,
- more stringent rules for the annual supervisory review and evaluation process (the "**SREP**") by which the ECB assesses and measures the risks for each bank and assesses its adequacy of own funds, liquidity, business model and internal governance and institution-wide controls and subsequently may require the banks to hold additional own funds and liquidity,
- the establishment of the Single Supervisory Mechanism (the "**SSM**") with the ECB as the central prudential supervisor directly supervising significant institutions including BAWAG P.S.K. and the creation of a Single Resolution Mechanism (the "**SRM**") with, the Single Resolution Board (the "**SRB**") as the central body in charge of, inter alia, the resolvability assessment, the resolution planning and resolution of, inter alia, institutions directly supervised by the ECB, including BAWAG P.S.K., both within the eurozone and any other EU countries that choose to participate in these mechanisms,
- revised frameworks to prevent market abuse, for investment services and markets in securities and other financial instruments,

- reporting and information requirements for securities financing transactions such as securities lending or repurchase transactions (so-called repos) as well as transparency and approval requirements for the reuse of collateral (so-called rehypothecation),
- a regulation on the production, use and supervision of financial benchmarks,
- new rules on payment services, including stricter security requirements for electronic payments and opening up the European payment market to non-banks offering account information or payment initiation services as contemplated by Directive (EU) 2015/2366 of the European Parliament and of the Council of November 25, 2015 on payment services in the internal market (known as PSD2),
- due diligence, risk retention and transparency rules in connection with securitizations,
- proposals for more stringent and risk-sensitive capital requirements, in particular in relation to credit risk, counterparty credit risk and market risk, leverage and liquidity standards including, in particular, the proposals of the BCBS in relation to revisions to the standardized approach for credit risk, operational risk, constraining the use of internal models for credit risk, capital floors and revisions to the leverage ratio (sometimes referred to as 'Basel IV'),
- proposals for transposing the FSB standard on total loss-absorbing capacity (the "**TLAC**") developed for global systemically important institutions into the European resolution regime applicable to all banks by integrating the more stringent TLAC requirements into the minimum requirements for own funds and eligible liabilities ("**MREL**") as laid out in Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**"),
- the envisaged revision of the regulations governing the European System of Financial Supervision with a possible view to impose fees on the supervised entities to finance the European supervisory authorities, namely the European Banking Authority ("**EBA**") and the European Securities and Markets Authority ("**ESMA**"), and
- a targeted review by the ECB as banking supervisory authority of the internal models used by banks within the eurozone, such as BAWAG Group, (the targeted review of internal models or "**TRIM**" project).

It is not yet fully clear if, when and how those reforms that have not yet been finalized could be implemented. Neither the final scope of the currently available proposals nor their potential effect on BAWAG Group may be determined at this early stage. The likely possibility of other future changes of the regulatory framework causes uncertainty for BAWAG Group and the financial sector as a whole.

As a consequence of the financial and sovereign debt crisis, the Austrian State and governmental and regulatory authorities in the EU and Austria have increased their involvement in the financial sector by providing capital and funding to, as well as acquiring stakes in financial institutions in the course of bail-outs. In Austria, related events have become the subject of increased public awareness, including investigations by legislative bodies. Continued and focused attention of the regulator and other authorities on the financial sector, and active involvement in strategic decisions of financial institutions in which the Austrian State holds participations is therefore to be expected.

In addition, regulatory authorities, in particular those with jurisdiction over BAWAG Group, including the ECB under the SSM and the FMA for certain other matters, have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulatory authorities, have been steadily increasing during recent years.

The aforementioned events and any other regulatory measures, as well as possibly a more stringent supervisory practice, including by the ECB and the FMA, in the future may, once adopted or implemented, influence the profitability of BAWAG Group's business activities, require adjustments of its business practices and/or increase costs, including compliance costs. Implementing the required changes may also require the attention of, and substantial resources from, management of BAWAG Group. BAWAG Group may face higher financing and/or capital costs and restrictions on its growth or permitted business activities. The business model of BAWAG Group as well as individual business areas could be endangered. Any reforms of regulatory law or practice could affect the financial position, assets, profitability and business prospects of BAWAG Group.

3.2.2 *European and Austrian legislation regarding the resolution of banks, in particular the powers of resolution authorities to ensure resolvability and to force shareholders and creditors to participate in a situation of crisis, could, if such steps were taken to ensure that BAWAG Group or critical functions thereof continue(s) as a going concern, significantly affect BAWAG Group's business operations, and lead to the loss by BAWAG Group shareholders of their entire investment in the Company.*

Austria participates in the SRM which centralizes at a European level the key competences and resources for managing the failure of banks in the eurozone. The SRM is based on Regulation (EU) No 806/2014 of the European Parliament and of the Council of July 15, 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (the Single Resolution Mechanism Regulation or "**SRM Regulation**") and the BRRD which has been implemented in Austria by the Federal Act on the Recovery and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken* – "**BaSAG**").

The SRM Regulation and the BaSAG grant broad powers to public authorities. For a bank or banking group directly supervised by the ECB, such as BAWAG Group, the SRB assesses its resolvability and may require legal and operational changes to the structure of BAWAG Group to ensure its resolvability. In the event that such a bank is failing or likely to fail and certain other conditions are met, the SRB is responsible for adopting a resolution scheme for resolving the bank pursuant to the SRM Regulation. The European Commission and, to a lesser extent, the Council of the European Union, have a role in endorsing or objecting to the resolution scheme proposed by the SRB. The resolution scheme would be addressed to and implemented by the competent national resolution authority, which is, for Austrian entities such as the Company and its Austrian banking subsidiaries, the FMA. The FMA would insofar act in accordance with the SRM Regulation and the BaSAG. The SRM Regulation and the BaSAG provide the SRB and the FMA, respectively, with a set of resolution tools which may be used under certain conditions for resolution, such as the imminent failure of a credit institution, to achieve one or more resolution objectives. These tools are the sale of the entity's business to the private sector, the establishment of a bridge institution or the transfer of assets and liabilities to an asset management vehicle (so-called 'bad bank') as well as the bail-in tool. In particular, pursuant to the SRM Regulation and the BaSAG, if certain conditions with respect to a credit institution or a financial holding company such as the Company are met, the SRB and the FMA are entitled to allocate losses and recapitalization needs to such entity's shareholders and creditors by the dilution of the existing shareholders of the failing entity or the cancellation of their shares outright, the write down in full or in part of the principal amount or the outstanding amount of any capital instruments that qualify as Additional Tier 1 ("**AT1**") or Tier 2 ("**T2**") capital instruments as well as any other subordinated debt instruments liabilities and finally even senior unsecured liabilities (subject to exceptions in respect of certain liabilities) or convert such capital instruments and eligible liabilities into new CET1 instruments, in particular of the resolved entity or a bridge institution. Furthermore, pursuant to the SRM Regulation and the BaSAG, a write-down and conversion of AT1 and T2 capital instruments may be imposed at the "point of non-viability" before and regardless of any subsequent resolution action. In addition to the resolution tools, the SRB and the FMA hold a number of additional powers to facilitate the process in case of a resolution, including the power to potentially suspend obligations of a credit institution in resolution such as redemption or interest payment obligations under notes it issued, to restrict the enforcement of security interests in relation to any assets of the institution and to suspend termination rights until the expiration of the business day which follows the day of publication of the notice of suspension.

The SRM Regulation and the BRRD, implemented under Austrian law by the BaSAG, are intended to eliminate, or reduce, the need for public support of banks in a crisis. Therefore, it is the overall goal that public financial support for such banks, if any, would be used only as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution powers, including the allocation of losses and recapitalization requirements to shareholders and creditors.

Regulatory measures under the BRRD resolution framework as implemented in the BaSAG and as applicable under the SRM Regulation taken in the event of failure of the Company or any of its banking subsidiaries, in particular the participation of Company's shareholders, holders of other relevant capital instruments and/or creditors and/or the use of any other of the available resolution tools, may severely affect the rights of the Company's shareholders as it may lead to a significant dilution or even result in the outright cancellation of the Existing Shares and hence in the loss of the entire investment of the Company's shareholders, and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations.

3.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group.

In December 2010, the BCBS published a set of comprehensive changes to the international capital adequacy framework, known as Basel III ("**Basel III**"), which have been implemented into EU law by a legislative package. This legislative package consists of the directly applicable Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**") and the CRD IV, both published in the Official Journal of the EU on June 27, 2013, (together, the "**CRD IV/CRR**" package) which has been implemented in Austria by amendments to the BWG. The implementation of Basel III into European and Austrian law brought stricter requirements on the eligibility of capital instruments and items as regulatory own funds, higher minimum capital ratios, introduced new capital buffers and a binding liquidity coverage ratio (the "**LCR**") and equipped the competent supervisors with discretion to a certain extent as regards additional buffers. The CRD IV/ CRR package became effective on January 1, 2014, with some of the regulatory requirements gradually phasing in through January 1, 2023.

In addition, the regulatory authorities that oversee BAWAG Group, in particular the ECB within the SSM, may, in connection with the SREP or otherwise, conduct stress tests and have discretion to impose additional capital requirements for risks that are not otherwise recognized in the statutory capital requirements or other surcharges depending on the individual situation of the bank and take or require other measures, such as restrictions on or changes to a bank's business. In this context, the ECB has imposed and is expected to impose in the future on an annual basis on BAWAG Group individual capital requirements resulting from the SREP which are referred to as 'Pillar 2 requirements'. Pillar 2 requirements must be fulfilled with CET1 capital in addition to the statutory capital and buffer requirements, and any non-compliance may have immediate legal consequences such as restrictions on dividend payments and other distributions. Also following the SREP, the ECB may communicate to individual banks, including BAWAG Group, (and has done so in the past) an expectation to hold further CET1 capital, the so-called 'Pillar 2 guidance'. Although the Pillar 2 guidance is not legally binding and failure to meet the Pillar 2 guidance does not automatically trigger legal action, the ECB has stated that it expects banks to meet the Pillar 2 guidance.

On November 23, 2016, and following a broader review of the rules currently in place, the European Commission published a proposal to change the CRD IV/CRR package (so far, such proposal is referred to as "**CRD V/CRR II**"), the SRM Regulation and the BRRD. As part of the CRD V/CRR II proposal, a binding leverage ratio of 3% of Tier 1 capital is proposed in order to prevent institutions to excessively increase their leverage. In addition, it is proposed that institutions will be required to meet, amongst others, a binding net stable funding ratio (the "**NSFR**"), more risk-sensitive capital requirements for counterparty credit risk, market risk and exposures to central counterparties and tighter regulation of large exposures. With regard to the recovery and resolution framework, the European Commission proposes, *inter alia*, to implement the FSB's new standard on a TLAC applying to global systemically important banks and to change the ranking of unsecured debt instruments in the insolvency hierarchy. These proposals are now subject to the EU co-decision process and will likely be subject to further changes over the coming months.

The need to comply with the aforementioned existing and proposed requirements and the change in ranking of certain debt instruments issued or to be issued by BAWAG Group could have a material adverse effect on BAWAG Group's profitability, business, financial condition, results of operations and prospects.

3.2.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect the profitability of BAWAG Group.

In order for banks to have in place a sufficient amount of equity and debt which is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, banks are required under the SRM Regulation and BaSAG to meet MREL requirements at all times. MREL requirements are determined on case-by-case basis for each institution or banking group by the competent resolution authority, in the case of BAWAG Group the SRB. Under the currently applicable legal regime, MREL ratios are expressed as a percentage of the total liabilities and own funds of the relevant institution; as part of the European Commission's proposal of 23 November 2016 to amend the BRRD and the SRM Regulation, it is intended to change this approach to express MREL as percentages of the total risk exposure amount and the leverage ratio exposure measure. The SRB as the competent resolution authority for BAWAG Group under the SRM Regulation may also require, that such percentage is wholly or partially composed of own funds or of a specific type of liabilities. BAWAG Group expects that the SRB will start to issue individual MREL requirements in 2018. As of the date of this Prospectus, the SRB has not yet announced any MREL requirements for BAWAG Group. The MREL requirements and their required structure will presumably have an effect on the balance sheet structure and the composition of funding of BAWAG Group and they could have a material adverse effect on BAWAG Group's profitability, business, financial condition, results of operations and prospects.

3.2.5 Future asset quality reviews, stress tests, internal model reviews and/or transparency exercises by the ECB or the EBA could lead to detrimental results for BAWAG Group and trigger, in particular, an increased demand for provisions and/or strengthened capital requirements.

In October 2014, and in light of the establishment of the SSM, the ECB completed a comprehensive assessment of 130 major European banks (including BAWAG Group) in close cooperation with the EBA and national supervisors which consisted of a supervisory risk assessment, an asset quality review ("**AQR**") and a stress test (jointly referred to as the "**Comprehensive Assessment**").

The EBA is required to at least annually consider whether it is appropriate to carry out EU-wide assessments of the resilience of financial institutions. The EBA has decided not to carry out an EU-wide stress test in 2017 but to start preparations for the next stress test which is expected to be formally launched in the fourth quarter 2018. In 2017, the ECB is also carrying out a sensitivity analysis of interest rate risk in the banking book (stress test 2017) for all banks under its direct supervision, including BAWAG Group, in order to examine how hypothetical changes in the interest rate environment would affect banks in the eurozone. The outcome of such stress tests cannot be predicted; depending on the financial position of BAWAG Group, they may require BAWAG Group to increase its amount of own funds, and as a consequence, require a strengthening of capital buffers and/or other supervisory interventions.

The stress test in 2018 or any future stress test or transparency exercise as well as any internal model reviews, such as the ECB's TRIM project, may have detrimental effects on BAWAG Group such as an increased demand for provisions, the requirement to increase own funds or higher refinancing costs due to the publication of the results all of which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.6 BAWAG Group is subject to risks attributable to findings based on audits, inspections and similar investigations conducted by regulators.

BAWAG Group has been, and expects to be, subject to periodic and ad hoc audits, inspections and similar investigations conducted by regulators which focus on BAWAG Group's compliance with applicable laws and regulations. This may for example include inspections conducted by or on behalf of the ECB or the Central Bank of Austria ("**OeNB**") for prudential purposes or audits conducted by or on behalf of the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung*) or the FMA, in each case either on a random basis or on a targeted basis such as in case of indications for the non-compliance with banking regulatory requirements or the infringement of accounting standards. It cannot be ruled out that the findings in any of those audits, inspections and similar investigations will lead to supervisory action and/or (additional) requirements for BAWAG Group imposed by the regulators and/or adversely affect BAWAG Group's reputation should those findings become public. In the first quarter of 2017, BAWAG Group was subject to an on-site inspection requested by the ECB with respect to the treatment and management of credit risk in certain business areas, in particular two international retail mortgage loan portfolios (a U.K. residential mortgage loan portfolio acquired in December 2015 and a French residential mortgage loan portfolio acquired in December 2016 through a French securitization vehicle). Furthermore, the organizational framework, policies and procedures and the credit risk management in these areas were evaluated and an analysis of risk-based samples of relevant credit files was conducted. According to the ECB's findings which were finalized in September 2017, the on-site inspection identified a number of shortcomings in the areas investigated, having a material impact on BAWAG Group's risk-weighted asset levels and own funds ratio. The implementation of the required changes to address the identified shortcomings and to meet the requirements imposed on BAWAG Group, included, for example, a reclassification of the individual customers in the U.K. mortgage loan portfolio and the taking out of a global insurance policy for such portfolio; these measures have involved and may continue to involve financial and other resources. In addition, the adopted reclassifications have resulted in adjustments to the reported risk-weighted asset level of both portfolios (retrospectively), resulting in a deduction of 1.02 percent points from the CET1 ratio of BAWAG Group as of June 30, 2017. It can also not be excluded that the alleged breach of the large exposure limit referred to in the on-site inspection report with respect to the period from the acquisition of the French mortgage loan portfolio will result in sanctions being imposed. BAWAG Group anticipates that any potential fines would not exceed a € million amount in the high teens, and the consolidated interim financial statements as at September 30, 2017 are expected to include a provision for this risk. The realization of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.7 BAWAG Group's business could be significantly burdened due to the central clearing, reporting, risk mitigation and other compliance requirements imposed by EMIR and MiFID II.

In 2012, the EU adopted the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories or "**EMIR**"). EMIR requires the clearing via a central counterparty of certain standardized over-the-counter ("**OTC**") derivative contracts the average value of which is reaching or exceeding specified clearing thresholds during a 30-day period, reporting to trade repositories and various risk mitigation techniques depending on the counterparty's status, including rules regarding margining and collateral arrangements. Accordingly, EMIR and related developments such as the adoption of the revised Markets in Financial Instruments Directive (Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU or "**MiFID II**") and the new Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (the Markets in Financial Instruments Regulation or "**MiFIR**") may require adaptations of its commercial practices and further increase costs, including compliance costs. The requirements imposed by EMIR and MIFID II already resulted in higher costs which are primarily due to higher ongoing expenditures for software applications and personnel required to address new requirements relating to, *inter alia*, transaction reporting, trade reporting, cost transparency, new technical standards and initial margins for non-cleared derivatives.

3.2.8 The access of BAWAG Group to liquidity and funding may be adversely affected by a change of the collateral standards of the ECB.

Following the sovereign debt crisis, the ECB has been intervening in the money market by a series of measures, including facilitating the access to low-interest loans with favorable collateral requirements for European financial institutions. Any tightening of these collateral standards (such as the rating for collateral securities) would increase the cost of funding of BAWAG Group. Any limitation imposed on BAWAG Group's access to liquidity at adequate terms could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.9 The cost incurred by BAWAG Group for compliance with anti-money laundering, anti-tax evasion, anti-corruption and anti-terrorism financing rules and regulations and sanctions is significant and may further increase. Failure to comply with these and similar rules may have severe legal and reputational consequences.

The rules and regulations applicable to the financial sector on the prevention of money laundering, tax evasion, corruption and the financing of terrorism as well as sanctions have been and are subject to ongoing tightening. This trend goes hand in hand with political initiatives to tighten measures against tax fraud to increase tax revenue. On the European level, the new Fourth Anti-Money Laundering Directive (Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing) came into force in 2015 and must be transposed into the national laws of the EU member states by June 26, 2017. Austria has transposed this directive ahead of schedule by adopting the Financial Market Anti Money Laundering Act (*Finanzmarkt-Geldwäschegesetz*) which became effective on January 1, 2017.

BAWAG Group engages in business with customers and counterparties from a diverse background. In light of recent U.S. and EU sanctions, particularly against Russian individuals, it cannot be ruled out that some of BAWAG Group's customers or counterparties are or may become subjected to sanctions. Such sanctions may result in BAWAG Group being unable to gain or retain such customers or counterparties or receive payments from them. In addition, the association with such individuals or countries may damage BAWAG Group's reputation or result in significant fines.

BAWAG Group directs significant funds, personnel, technical and other resources at its compliance with anti-money laundering, anti-tax evasion (including the Foreign Account Tax Compliance Act ("**FATCA**")), anti-corruption and anti-terrorism financing rules and sanctions and may even have to step-up these efforts in line with a future tightening of these rules.

Despite these efforts, BAWAG Group cannot guarantee that all applicable anti-money laundering, anti-tax evasion, anti-corruption and anti-terrorism financing rules and sanctions are consistently complied with at all times and in all respects. BAWAG Group is currently and may in the future again become subject to investigations by authorities alleging a violation of such rules, and failure to comply with these and similar rules, or the allegation of such failure may have severe legal, monetary and reputational consequences and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.10 *Certain aspects of the tax framework under which BAWAG Group operates, such as the Austrian stability tax, may have a substantial negative effect on BAWAG Group's business, financial condition, results of operations and prospects.*

The tax framework under which BAWAG Group operates is subject to changes that could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. As of January 1, 2011, Austrian banks are subject to a stability tax to fund government-borne bank recapitalization expenditures. The financial burden of BAWAG Group amounted to € 86.2 million in the financial year 2016 (€ 21.8 million bank levy 2016, € 41.0 million non-recurring one-time bank levy payment (introduced by an amendment to the Austrian bank levy regulation reflecting an optional additional one-time payment, following revisions to the Austrian bank levy regulation, rather than spreading the payment out over 5 years), € 14.8 million contributions to the deposit guarantee scheme and € 8.6 million contributions to the Austrian bank resolution fund). Considering the ongoing restructuring of the Austrian banking market which will be funded to a large extent by the Austrian government, there is a substantial risk that the stability tax could be increased or similar fees could be introduced for banks to reduce the burden for taxpayers. Any increase of the stability tax or its imposition in addition to the said ex-ante contributions could result in substantial additional costs for BAWAG Group and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. Furthermore, the applicability of the cost sharing VAT exemption for financial services was denied by the Court of Justice of the European Union in a recent ruling. In 2016, BAWAG Group received services in the amount of € 5.4 million from cost sharing entities outside of BAWAG Group (thereof 20 % VAT). The removal of the cost-sharing exemption could lead to the removal of the VAT exemption for services between certain financial institutions which could also have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.11 *BAWAG Group's assumptions regarding the deductibility of certain items from its taxable income may prove incorrect which could lead to higher than expected tax payments.*

BAWAG Group assumes that it will be able to deduct goodwill amortizations and tax loss carry forwards from its taxable income. For each of the financial years 2017 to 2021 (inclusive), BAWAG Group expects to deduct goodwill amortizations from the acquisition of BAWAG P.S.K. of approximately € 76 million, resulting in a total projected reduction of its taxable income of approximately € 378.0 million. BAWAG Group expects that its deferred tax assets from prior tax loss carryforwards will be fully absorbed through the first half of the financial year 2019. The deductibility of these goodwill amortizations and tax loss carry forwards is based on a number of assumptions, including, among others, the correct recognition of these items, certain earning levels and unchanged tax regulations. If any of these assumptions prove incorrect, BAWAG Group may not be able to deduct these items (in whole or in part) from its taxable income resulting in higher than expected tax payments which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.12 *The introduction of the proposed Financial Transaction Tax could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.*

On January 22, 2013, the Council of the European Union adopted a decision authorizing eleven EU member states (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) to proceed with the introduction of a financial transaction tax under the European Union's "enhanced cooperation procedure". The European Commission on February 14, 2013 adopted a draft directive for the implementation of the financial transaction tax. Since then, the introduction of the financial transaction tax is subject to ongoing discussions at the EU level with the result that the final scope, design and entry into force of the financial transaction tax remain uncertain. Estonia is no longer participating. Depending on the final details, the proposed financial transaction tax could result in compliance costs as well as market consequences and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. Different forms of national financial transaction taxes have already been implemented in a number of European jurisdictions, including France and Italy. While Austria supports the introduction of a financial transaction tax at EU level, there are no concrete plans to implement such a tax on national level.

3.2.13 *The mandatory ex-ante funding of the Deposit Guarantee Scheme pursuant to the EU Deposit Guarantee Schemes Directive and its implementation by way of a Federal Act on the Deposit Guarantee and Investor Compensation by Credit Institutions (ESAEG), and possibly higher contributions could have an adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.*

The Deposit Guarantee Scheme Directive (Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes or the "**DGSD**") requires each EU member state to have in place one or more deposit guarantee schemes ("**DGS**") and further requires that, until July 3, 2024, each national DGS is provided with financial means collected through *ex-ante* contributions of the participating banks at a target level of, in general, 0.8% of covered deposits of all its member banks. As the former Austrian mandatory DGS did not require *ex-ante* funding but obligated member banks only to make *ex-post* contributions following the occurrence of a protection event, i.e., after deposits of any member bank would have become unavailable and the DGS had to protect depositors, Austria was required to introduce annual *ex-ante* funding to its national DGS. The DGSD has been implemented into Austrian law through the Federal Act on the Deposit Guarantee and Investor Compensation by Credit Institutions (*Bundesgesetz über die Einlagensicherung und Anlegerentschädigung bei Kreditinstituten* – "**ESAEG**") on August 14, 2015 which has triggered an additional financial burden for BAWAG Group (which amounted to € 14.8 million in the financial year 2016) Further, in case the regular contributions to the DGS are not sufficient to cover a protection event, in total an additional contribution per calendar year of up to 0.5% – or more if approved by the FMA – of covered deposits of its members will have to be paid. Such burden could have an adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.14 Recent amendments of the Austrian Insolvency Act could have a material adverse effect on its business, financial condition, results of operations and prospects.

In 2017, the Austrian Insolvency Act (*Insolvenzordnung*) was amended by the Insolvency Law Amendment Act 2017 (*Insolvenzrechtsänderungsgesetz 2017* – "IRÄG 2017"). This amendment provides for major changes to personal insolvency law, including inter alia the elimination of a minimum insolvency payment (formerly 10%) and the reduction to five years of the time period during which the debtor has to pay (part of) his income to the creditors (formerly seven years).

The IRÄG 2017 thus may lead to the result that some consumers will be released from their debts without any payments, increasing the number of insolvency proceedings and reducing recoveries. Furthermore, this may lead to lower price bids in the context of Austrian NPL sales.

Consequently, this may result in reduced recovery from defaulted retail loans and thus may have a negative impact on BAWAG Group's financial and earnings position.

3.2.15 BAWAG Group uses standardized agreements and standardized terms and conditions, in particular in its important retail-focused business segments, which increases the potential that, if any clause is held to be void, this clause is invalid or unenforceable in a large number of contracts.

BAWAG Group entertains legal relationships with a large number of customers. In this context, BAWAG Group uses standardized documents, standard-form contracts and standardized terms and conditions, some of which are regulated by law, e.g., regarding the adequate disclosure of interest rates in loan or savings accounts agreements with retail customers. From time to time, BAWAG Group is subject to litigation, e.g., brought by consumer protection associations (including the Chamber of Labor (*Arbeiterkammer*) and the Consumer Information Assocation (*Verein für Konsumenteninformation*)) which are statutorily entitled to assert collective redress claims, regarding the validity of certain aspects of its terms. If such documents, contracts or terms and conditions turn out to contain provisions that are disadvantageous to customers of BAWAG Group, or if clauses in such documents or contracts are declared invalid and thus replaced by statutory provisions which are unfavorable to customers of BAWAG Group, a large number of standardized documents, contracts or terms and conditions could be affected.

Additionally, standardized contractual terms and conditions under Austrian law (*Allgemeine Geschäftsbedingungen*) have to comply with statutory laws, which means they are subject to rigid fairness and transparency controls by the courts regarding their content and the way they, or legal concepts described therein, are presented to the other contractual party by the person using them. This applies in particular if they are used vis-à-vis retail customers, who form the majority of BAWAG Group's customers. As a general rule, standardized terms are invalid if they are not transparent, clearly worded, or if they are unbalanced or discriminate against the other party inappropriately. Due to the frequent changes to the legal framework, particularly with regard to court decisions relating to general terms and conditions (including such terms and conditions that have been used for a long time by numerous market participants), BAWAG Group cannot fully protect itself against risks arising from the use of such standardized contractual terms. Even if documents, contracts and terms and conditions are prepared with legal advice, it is not possible to avoid all potential risks from the outset or in the future, as the changes may continue to occur in the legal framework, particularly via case law. BAWAG Group faces similar risks regarding standardized agreements and standardized terms and conditions in other jurisdictions, for example in Germany.

If any of BAWAG Group's standardized agreements and standardized terms and conditions are found to be invalid or unenforceable, BAWAG Group may, among other things, not rely on such agreements and conditions and be forced to reimburse its customers for fees or expenses paid to it. The realization of this risk or any of the other risks described above could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.16 BAWAG Group has financial obligations to its employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates.

BAWAG Group operates funded and unfunded defined benefit pension schemes and defined contribution schemes for beneficiaries to which employee pension benefits are offered (as element of their overall employee benefits). As of December 31, 2016, BAWAG Group had total defined benefit obligations (DBO) (under IAS 19) amounting to € 270 million of which € 10 million are funded by plan assets administered by the respective pension insurance funds for the Austrian banking sector. In the financial years 2016, 2015 and 2014, the annual expenses (*Jahresaufwände*) recorded in its consolidated profit and loss statements (service cost and net interest expense) amounted to € 7 million, € 8 million and € 12 million, respectively, while pension benefits payments and contributions to pension insurance funds which were recognized as usage of the pension provision for defined benefit schemes (*Leistungs- und Beitragszahlungen*) amounted to € 12 million, € 14 million and € 16 million, respectively. In addition contributions to pension insurance funds for defined contribution schemes (Beitragszahlungen) amounted to € 7 million, € 5 million and € 5 million, respectively.

BAWAG Group's defined benefit obligations are based on certain actuarial assumptions such as discount rates, life expectancies and rates of increase in compensation levels as well as investment strategies of the pension insurance funds that can vary. BAWAG Group has recognized provisions for unfunded plans and for funded plans to the extent that such funded plans are not fully funded.

A change in actuarial assumptions with respect to, *inter alia*, discount rates, changes in salaries and pension levels, life expectancies or staff turnover, could lead to an increase in BAWAG Group' pension obligations and to the need for additional provisions. In past years, the financial and sovereign debt crisis resulted in substantially decreased interest rates in the capital markets which had negative effects on the discount rates and the funding ratio of BAWAG Group's pension plans. Changes in actuarial assumptions or under-performance of plan assets could also adversely affect BAWAG Group's results of operation and financial position. Differences between the discount rate and actual returns on plan assets can require BAWAG Group to record additional re-measurements.

The majority of the plans' obligations are to provide benefits for the life of the member, so that increases in life expectancy will result in an increase in the plans' liabilities. Furthermore, the legal conditions governing BAWAG Group's pension obligations are subject to changes in applicable legislation or case law. BAWAG Group cannot provide any assurance that it will not in the future incur new or more extensive pension obligations due to changes in such legislation and case law, or that such changes will not have an impact on its previous calculations with respect to its pension obligations. Moreover, future amendments to accounting standards may affect BAWAG Group's pension obligations. Should this be the case, this could have a material adverse effect on BAWAG Group's results of operation and financial position.

3.2.17 BAWAG Group may fail to comply with laws and regulations with respect to private data protection.

BAWAG Group is subject to national and international laws and regulations governing the collection, use, retention, sharing and security of personal data. A failure to comply with applicable laws or regulations could have an adverse impact on BAWAG Group's reputation and subject BAWAG Group to penalties or claims, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. The need to comply with data protection legislation results in significant controlling, operational and reputational risks which can affect BAWAG Group in a number of ways including, for example, making it more difficult to maintain and exploit marketing data and also through potential litigation relating to the alleged misuse of personal data. Regulation regarding data collection and data protection may also become more stringent in the future. Thus, new laws, regulations or developments in this field and changes in consumer behavior could interfere with BAWAG Group's strategies to use privacy-related information for its marketing efforts, particularly with respect to its retail customers, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

As a result of significant amendments to laws or regulations in countries in which BAWAG Group operates, BAWAG Group may have to incur higher costs or change its business practices. BAWAG Group also expects compliance to become more complex and to involve higher costs and the increasing risk of non-compliance may give rise to civil liability, administrative orders (including injunctive relief), fines or even criminal charges. For example, the new regulation (EU) 2016/679 on data privacy of April 27, 2016 (the "**General Data Protection Regulation**") has introduced substantial changes to the data protection regime of the EU, for example regarding intragroup as well as external data transfers and will to a large extent replace current national data protection laws by a directly applicable EU legislation. The General Data Protection Regulation will apply as of May 25, 2018 and likely impose a substantially higher compliance burden on BAWAG Group's business. In addition, the regulation will increase the maximum level of fines for undertakings to the higher of up to € 20 million or 4% of a company's total worldwide annual turnover.

BAWAG Group is also exposed to the risk that its data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by it or on its behalf. If BAWAG Group or any third party service providers on which it may rely, fails to transmit customer information in a secure manner, or if any such loss of personal customer data were otherwise to occur, BAWAG Group could face liability under data protection laws. This could also result in the loss of its customers' goodwill and deter new customers. There is also a risk of data abuse by any of its service providers for which BAWAG Group may have to assume the liability.

The realization of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.18 Tightening of consumer protection laws and/or their interpretation as well as compliance with the future implementation of MiFID II may have a negative influence on the profitability of consumer banking transactions.

Retail banking is a significant business segment of BAWAG Group. Any tightening of consumer protection laws or the interpretation thereof by courts or other competent authorities could result in lower profitability of certain of its products and services, which may impair the ability of BAWAG Group to offer certain products and services or to enforce certain clauses and thus could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

Likewise, limitations imposed by, and cost of compliance with new rules yet to be implemented into Austrian law under MiFID II may result in further limitations, increased cost and lower profitability of BAWAG Group's retail banking business involving financial instruments.

3.2.19 Changes in BAWAG Group's financial reporting, such as changes to IFRS, could materially affect BAWAG Group's financial results and regulatory capital ratios.

BAWAG Group prepares its consolidated financial statements in accordance with IFRS. Future amendments to the IFRS or their interpretation, as announced by the International Accounting Standards Board (an increased amount of amendments has been proposed since the financial crisis) will have to be applied by BAWAG Group and could have a material adverse effect on BAWAG Group's financial reporting, its own funds, business, financial condition, results of operations and prospects.

3.2.20 BAWAG Group is affected by the new accounting standard IFRS 9, which could negatively impact the Company's own funds and financial condition.

The International Accounting Standards Board (IASB) published a new standard on financial instruments accounting (IFRS 9 Financial Instruments) in 2014, which the Company will be required to implement beginning with the financial year 2018. The new standard includes revised guidance on the classification and measurement, impairment and hedge accounting of financial instruments. This guidance leaves room for interpretation on how to implement the various requirements. There is not yet a fully harmonized view at the international level on the proper interpretation, neither within the community of local banking regulatory authorities, nor within the international community of financial auditors. In any case, the impact on banks and their accounting is expected to be substantial. The implementation of the new standard at BAWAG Group will lead to increased administrative expenses. Furthermore, the new standard is expected to have a negative impact on BAWAG Group's opening balance for the financial year 2018 as well as on the results of operations in the financial year 2018. Moreover, it is likely that due to the new classification and measurement rules, more financial assets will have to be measured at fair value (either in the profit and loss accounts or through other comprehensive income). As a result of this and of the new impairment rules, the volatility of the Company's profit and loss accounts and in equity in its financial statements is likely to increase. Following internal assessments based on data available as at June 30, 2017, BAWAG Group expects the first-time application of IFRS 9 to reduce its CET1 capital ratio (Fully Loaded) by approximately 0.40%. However, it is possible that the first-time application might have greater effects on its regulatory capital or other currently unforeseen negative effects. The final effects will also depend on the interpretation of the standard of the relevant regulatory authorities, who may examine the implementation of IFRS 9 in detail. More stringent interpretations (for example within the area of impairment) may lead to a higher negative impact on the capital.

3.2.21 Despite BAWAG Group's risk management policies, procedures and methods, it may be exposed to unidentified or unanticipated risks, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group may be exposed to risks which are not sufficiently covered by its risk management policies. Although BAWAG Group has devoted significant resources to develop its risk management policies and intends to continue to do so in the future, there can be no guarantee that the risk management policies are fully effective in mitigating BAWAG Group's risk exposure against all types of risk, including risks that it fails to identify or anticipate or that are generally unknown. Additionally, it should be noted that some of BAWAG Group's quantitative tools and metrics are based on historical market behavior and developments, which may limit their effectiveness at predicting future economic changes. The risk management tools used in the financial sector failed to predict a number of the losses experienced during the global financial crisis and it cannot be guaranteed that BAWAG Group's systems will be able to predict future risks accurately. The realization of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.22 BAWAG Group is, and may in the future be, subject to a number of legal and regulatory proceedings, the outcome of which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

BAWAG Group is subject to a number of legal and regulatory proceedings that are often highly complex, take considerable time and are difficult to predict or estimate. Such proceedings include lawsuits with customers and consumer protection associations, such as the Chamber of Labour and the Consumer Information Association. Legal claims asserted against BAWAG Group may involve new or untested legal theories. The outcome of such proceedings is, therefore, difficult to predict or estimate until late in the proceedings, which may also last for several years.

Furthermore, the volume of claims and the amount of damages and penalties claimed in litigation, arbitration and regulatory proceedings against financial institutions are generally high. Proceedings brought against BAWAG Group may result in judgments, settlements, fines, penalties, injunctions, court orders, or other results adverse to BAWAG Group, which could have a material adverse effect on BAWAG Group's reputation, organization, business, financial condition, results of operations and prospects.

In general, any litigation could have a negative influence on the financial condition of BAWAG Group. The amounts ultimately incurred in relation to legal proceedings may be substantially higher or lower than the amounts reserved for by BAWAG Group and, if the amounts are higher, this could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.23 BAWAG Group is a party to a proceeding against the City of Linz before the Commercial Court of Vienna which could have a significant financial impact on BAWAG Group.

In November 2011, the City of Linz sued BAWAG P.S.K. for payment of CHF 30.6 million (corresponds to an amount of approximately € 24.2 million for the purposes of the court procedure) plus interest and costs. The City of Linz bases its claim on the allegation that a swap transaction into which it entered with BAWAG P.S.K. was void. BAWAG P.S.K. rejects these claims and has filed a counter-claim seeking payment of € 417.7 million plus interest and costs from the City of Linz. For reasons of utmost precaution, this receivable has been written down to a carrying value of approximately € 254 million in the financial year 2011. BAWAG P.S.K. bases its claim on costs related to the termination of the swap transaction and an outstanding payment due under the swap transaction. Were the court to hold that the swap transaction was void, BAWAG P.S.K. could be obligated to pay the claimed amount to the City of Linz in full or in part, and BAWAG P.S.K. may not be awarded, in full or in part, the payment sought and would then be required to write down its claims further. In addition, even if the court holds that the swap transaction was valid, BAWAG P.S.K. may still not be awarded, in full or in part, the payment sought, in which case it would be required to write down its claims further. Finally, depending on the outcome of the proceedings, BAWAG P.S.K. may be required under statutory law to bear some or all of the court and legal fees of the City of Linz. A final decision in the first instance is expected at the earliest in 2018.

3.2.24 BAWAG P.S.K. is a party to an arbitration proceeding against Austria Post which could have a significant financial impact on BAWAG Group.

Austrian Post has sued BAWAG P.S.K. in an arbitration procedure under Austrian law for an increase of transaction fees for services provided in the joint branch network. Under the cooperation agreement concluded in 1997 and amended from time to time, Austrian Post and BAWAG P.S.K. operate joint branches, whereby Austrian Post provides certain financial services, including cash deposits, payments and withdrawals, on behalf of BAWAG P.S.K. at the counters of Austrian Post. Austrian Post claims that it is entitled to an adequate compensation under the Post Savings Bank Act (*Postsparkassengesetz* – "**PSK-G**") which exceeds the contractually agreed compensation by approximately € 15 to € 20 million per year (at least until the first possible termination of the cooperation agreement as per the end of 2020). Further, for the years from 2013 to 2016 Austrian Post claims in total € 56 million of additional fees. If the arbitration panel grants Austrian Post's claims in full and provided that the cooperation agreement expires at the end of 2020, BAWAG Group estimates that the maximum amount payable to Austrian Post, in addition to the contractually agreed compensation, is approximately € 126.5 million. While BAWAG P.S.K. believes that Austrian Post is only entitled to the contractually agreed transaction fees, should Austrian Post be successful with all or part of its claim, BAWAG Group could experience material adverse effects on its business, financial condition, results of operations and prospects.

3.2.25 BAWAG Group is a party to several proceedings before different courts relating to the insolvency of the ALPINE, which could have a significant financial impact on BAWAG Group.

BAWAG P.S.K. was joint lead manager or co-lead manager for bonds issued by ALPINE Holding GmbH from 2010 to 2012. In July 2013, insolvency proceedings were opened regarding this corporate issuer. Several claims have been filed against the banks involved in the issuance and the distribution of ALPINE bonds, among them BAWAG P.S.K. Generally, these claims allege either erroneous investment advice or prospectus liability (or both). Following an internal assessment of the claims based on erroneous investment advice, BAWAG Group identified and consequently settled a limited number of cases that it believed were well founded. The remaining claims currently filed against BAWAG Group amount to approximately € 29 million which are (also) based on prospectus liability and in certain cases (amounting to an aggregate volume of € 12.2 million in dispute) are also grounded on allegedly erroneous investment advice. In addition, further claims based on prospectus liability could be brought against BAWAG P.S.K.

In order to assess whether the prospectus liability claims against BAWAG Group as well as other involved banks are well founded, the competent court appointed an expert in April 2015. The expert opinion is expected to be delivered in March 2018. The expert regularly updates the parties to the proceedings on her findings. Based on the information shared to date, BAWAG Group believes that there is no substantiated indication that there will be a basis for a prospectus liability claim, while the outcome of the proceedings – which are still pending in the first instance – is not conclusively predictable. Furthermore, in May 2017, the public prosecutor's office denied to continue the prosecution and investigation against unidentified members of the lead arrangers (*Anzeige gegen Unbekannt*) for criminal wrongdoing relating to the issuance of the bonds of ALPINE Holding GmbH. The decision of the public prosecutor's office has been appealed and is therefore not yet final. In its reasoned statement, the public prosecutor held that there was no indication that members of the lead arrangers committed any unlawful acts in connection with the issuance or the distribution of the bonds of ALPINE Holding GmbH. However, it cannot be excluded that the civil law courts may find in favor of the claimants and order BAWAG P.S.K. to pay the entire amount claimed to the bond investors.

On the other hand, BAWAG Group and other banks sued Austria to enforce guarantees which Austria had granted under the Act on the Strengthening of Company Liquidity (*Unternehmensliquiditätsstärkungsgesetz* – "**ULSG**") with respect to certain repayment claims of these banks against ALPINE Bau GmbH. The claims of BAWAG Group amount to approximately € 19 million. The guarantee claims are sued for by the banks in two separate legal proceedings. On August 18, 2017 BAWAG Group and the other banks obtained a favorable judgment from the court of first instance (Handelsgericht Wien) in the legal proceedings referred to as "ULSG II" obliging Austria to pay an amount equal to € 7.5 million (plus default interest) to BAWAG Group. It is likely that Austria will appeal this decision.

In the event that the court-appointed expert concludes that the prospectus liability claims were well founded and/or that the banks knew, or should have known, about the unsound financial situation of the ALPINE Group, this may also negatively impact the cases against Austria, which could force BAWAG Group to write off the repayment claim of approximately € 19 million. If these risks were to materialize, this could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.26 BAWAG Group operates in an increasingly regulated environment. If BAWAG Group fails to comply with the wide range of laws and regulations applicable to it, including an increasing number of reporting requirements, BAWAG Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigation and criminal prosecution.

BAWAG Group has to comply with the wide range of laws and regulations applicable to it, including an increasing number of reporting requirements, such as, *inter alia*, mandatory voting rights notifications, obligations imposed by the Common Reporting Standards (CRS), the ECB's "AnaCredit" project by which granular credit and credit risk data will be collected and which is scheduled to start in September 2018, and additional reporting requirements imposed by the ECB, the OeNB and other authorities. It cannot be guaranteed that BAWAG Group continuously complies with all laws and regulations all the time, in particular since legislation, regulation and jurisprudence is developing fast. In countries where BAWAG Group does not have a local presence compliance with local laws is more challenging. Also when BAWAG Group enters or invests in new markets, it may be subject to additional laws and regulations and compliance therewith may be more challenging especially during the initial phase. BAWAG Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigations and criminal prosecution for any failures to comply with all laws and regulations. This could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.2.27 Compliance or non-compliance with legal provisions applicable to it could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

Legal compliance by BAWAG Group can be associated with significant costs. Non-compliance with applicable laws or regulations can lead to sanctions imposed by the competent supervisory authorities and a loss of reputation. Such additional costs, or the imposition of fines or sanctions, or a loss of reputation could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

This particularly applies to bank supervisory regulations, regulations generally applicable to companies, and tax regulations.

Bank supervisory regulations. BAWAG Group is subject to supervision by financial supervisory authorities in all jurisdictions in which it carries on banking activities. It cannot be excluded that the banking license of BAWAG Group, in the case of serious and repeated breaches of regulatory provisions, may in the future be withdrawn or restricted in a jurisdiction. Should the banking license of BAWAG Group be withdrawn or restricted in a jurisdiction this could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

Regulations generally applicable to companies. In addition to the specific regulations applicable to financial service providers, BAWAG Group must comply with a series of other regulations relating to general corporate law areas such as labor, competition and tax law. These regulations and their interpretation by the competent authorities are subject to change. BAWAG Group expects that in the future, the costs associated with compliance with these regulations will increase which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

Tax regulations. The financial position, the assets position and the profitability of BAWAG Group is particularly dependent on the taxation of profits at the level of BAWAG Group, its subsidiaries and affiliates. Amendments to local tax law or other regulations could affect the ability or willingness of prospects to enter into business relations with members of BAWAG Group. Every amendment of the legal situation, judicial or administrative practice of taxation could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.3 Risks related to the shareholder structure

3.3.1 Even after completion of the Offering, Cerberus and GoldenTree will be able to exercise significant influence on the Company, and their interests could come into conflict with the interests of other investors.

After the completion of the Offering, the Cerberus Shareholders and GoldenTree Shareholders will hold at least 35.1% and 25.7%, respectively, (or 32.1% and 23.5%, respectively, if the Greenshoe Option has been fully exercised) of the Company's share capital, and will be restricted from selling any additional shares for a period of 180 days after the first day of trading of the Existing Shares on the Official Market. In two phases, beginning after the expiry of 180 and 360 days, respectively, after the first day of trading of the Existing Shares on the Official Market, the Cerberus Shareholders and the GoldenTree Shareholders may sell certain shares from their shareholdings. All selling restrictions relating to the shareholdings of the Cerberus Shareholders and the GoldenTree Shareholders end after the expiry of 450 days after the first day of trading of the Existing Shares on the Official Market. The interests of the Cerberus Shareholders and the GoldenTree Shareholders could conflict with the interests of the other shareholders of the Company. In this respect it should be noted that one of the Cerberus Shareholders and one of the GoldenTree Shareholders will each have the right, as long as the respective shareholder holds a direct participation in the Company of at least one share to nominate one member of the supervisory board of the Company. Such right of the respective Cerberus Shareholder and the respective GoldenTree Shareholder to nominate members of the supervisory board of the Company shall be repealed, in each case, once the shareholding of the Cerberus Shareholders taken as a whole or, respectively, the shareholding of the GoldenTree Shareholders taken as a whole falls below 20% of the voting rights in the Company.

The Cerberus Shareholders and the Company as well as the GoldenTree Shareholders and the Company entered into two separate deconsolidation agreements (*Entherrschungsverträge*, each a "**Deconsolidation Agreement**"). In essence, under the Deconsolidation Agreements, the Cerberus Shareholders and the GoldenTree Shareholders undertake vis-à-vis the Company to a level of self-restraint regarding the use of their voting rights in the Company in order to ensure that they will not be able to carry a vote on their own in respect to the election and dismissal of supervisory board members, any vote of non-confidence (*Misstrauensvotum*) and management matters (*Geschäftsführungsmaßnahmen*) that are brought before the shareholders' meeting of the Company.

On matters not covered by the Deconsolidation Agreements, the Cerberus Shareholders and the GoldenTree Shareholders may, depending on the shareholder presence at the general shareholders' meeting of the Company, each be in a position to control the resolutions passed by the general shareholders' meeting of the Company with a simple majority of the votes cast or the represented share capital. Depending on the shareholder presence at the general shareholders' meeting of the Company, the Cerberus Shareholders and the GoldenTree Shareholders may also prevent resolutions from being adopted at the general shareholders' meeting of the Company. This applies in particular to resolutions that, in order to be adopted, require a qualified majority of the votes cast or the represented share capital. This may include capital increases to finance acquisitions, investments, structural measures (e.g. approval of enterprise agreements or the approval of transformation measures such as mergers) or for other purposes. In connection with the exercise of their voting rights or exercise of other influence on the Company, the interests of Cerberus Shareholders and the GoldenTree Shareholders may be in conflict with the interests of the other shareholders and the Company. In the event that the Cerberus Shareholders and the GoldenTree Shareholders do not participate in a capital increase proposed by the Company in the future, the Company's efforts to raise new capital could be undermined.

If any of these risks materializes, this could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.3.2 *After completion of the Offering, BAWAG Group will no longer be controlled by the Selling Shareholders which may lead to the loss of business opportunities and reduced access to management personnel.*

In the past, BAWAG Group has benefited from being majority-owned by affiliates of Cerberus and GoldenTree. Particularly its relation with Cerberus helped BAWAG Group, among other things, to advance its international loan business and facilitate certain acquisitions. For example, as of July 31, 2017, about 10% of the loans in BAWAG Group's International Business segment was attributable to entities affiliated with Cerberus. Furthermore, various key management employees of BAWAG Group, that were central to the transformation that BAWAG Group has undergone since 2012, previously worked for Cerberus. Following the reduction of the investment of the Cerberus Shareholders and the GoldenTree Shareholders in the Company, BAWAG Group might lose or have reduced access to these business opportunities, and such loss or reduction may not be fully offset by broader opportunities from other financial sponsors that did not wish to conduct business with BAWAG Group while it was owned and controlled by Cerberus and GoldenTree. Due to the fact that the Cerberus Shareholders and the GoldenTree Shareholders are owned and controlled by investment funds, it can be expected that they will further reduce their shareholdings in the Company over time. In particular, the smaller the shareholding of the Cerberus Shareholders in the Company will be, the greater the risk that Cerberus affiliates will reduce the number of business opportunities afforded to BAWAG Group.

3.4 Risks related to the Existing Shares

3.4.1 *The Offering might not be completed and investors could lose security commissions paid and be exposed to risks from any short selling of the shares of the Company.*

The underwriting agreement among the Company, the Selling Shareholders and each of the Underwriters (the "**Underwriting Agreement**") will provide that the Joint Global Coordinators and Joint Bookrunners, acting on behalf of the Underwriters, may under certain circumstances terminate the Underwriting Agreement, in particular if a material adverse change in the economic position or the business of BAWAG Group has occurred or if an event occurs that has or could have a material adverse impact on the financial markets in Austria, the United Kingdom or the United States. If the Underwriters withdraw from the Underwriting Agreement, the Offering will not take place. Any allocations to investors that have already occurred will be invalid. In this case investors will not have a claim for delivery of the shares in the Company. Claims with regard to any subscription fees that have already been paid and costs incurred in connection with the subscription by an investor are governed solely by the legal relationship between the investor and the institution to which the investor has submitted its offer to purchase. Any investor that engages in short selling bears the risk of not being able to fulfill its delivery obligations.

3.4.2 *Future sales or market expectations of sales of a large number of Existing Shares by the Cerberus Shareholders or the GoldenTree Shareholders could cause the price of the Existing Shares to decline.*

Upon completion of the Offering, the Cerberus Shareholders and the GoldenTree Shareholders will hold 32.1% and 23.5% respectively of the Existing Shares (assuming full placement of the shares including those meant to cover a potential Over-Allotment (as defined below) and a full exercise of the option granted by the Selling Shareholders (other than PSH and certain minority shareholders) to the Underwriters to acquire up to 5,250,000 borrowed shares against payment of the offer price less agreed commissions ("**Greenshoe Option**")). It cannot be ruled out that the Cerberus Shareholders or the GoldenTree Shareholders will want to sell their remaining shares as quickly as possible. The Company's share price could fall substantially if (i) the Cerberus Shareholders or the GoldenTree Shareholders start selling their shares after the selling restrictions the Selling Shareholders are subjected to have expired, i.e. with respect to certain shares from the shareholdings of the Cerberus Shareholders and the GoldenTree Shareholders in two phases beginning after the expiry of 180 and 360 days, respectively, after the first day of trading of the Existing Shares on the Official Market and with respect to all shares of such shareholder groups 450 days after the first day of trading of the Existing Shares on the Official Market (or at an earlier date with the prior written consent of Goldman Sachs International and Morgan Stanley), or (ii) such sales are anticipated by investors. This also applies if other significant shareholders sell shares or related equity linked instruments in the market or if such sales are expected. In addition, the sale or market expectation of a sale of a large number of shares on the part of the Cerberus Shareholders or the GoldenTree Shareholders or other significant shareholders could make it difficult for the Company to issue new shares or sell related equity linked securities in the future on favorable terms.

3.4.3 *The Existing Shares have not yet been publicly traded, and there is no guarantee that a liquid market will develop or continue following the initial public offering.*

Prior to the Offering, there was no public trading for the Existing Shares. The offer price will be set by the Selling Shareholders by way of a bookbuilding process jointly with the Joint Global Coordinators and Joint Bookrunners. There is no guarantee that the offer price will correspond to the price at which the Existing Shares are subsequently traded after the Offering, or that a liquid market in the Existing Shares will develop and become established after the Offering. The fact that, upon completion of the Offering, the Cerberus Shareholders and the GoldenTree Shareholders will hold 32.1% and 23.5%, respectively, of the Existing Shares (assuming full placement of the shares including those meant to cover a potential Over-Allotment (as defined below) and full exercise of the Greenshoe Option) limits the number of free float shares in the Company and could, therefore, adversely affect the development and maintenance of a liquid market in the Existing Shares. Investors may not be able to sell the Existing Shares at the offer price, at a higher price or at all under certain circumstances.

3.4.4 *The price and trading volume of the Existing Shares could fluctuate significantly, and investors could lose all or parts of their investments.*

Following completion of the Offering, the price of the Existing Shares may be subject to substantial fluctuations. Also in the period immediately following completion of the Offering, although Goldman Sachs International, acting as stabilization manager ("**Stabilization Manager**") may take stabilization measures from the date of the commencement of trading of the Existing Shares on the Official Market up to 30 calendar days after such date, the Stabilization Manager is under no obligation to take any stabilization measures. As a result, investors in the Existing Shares could lose all or part of their investments. Fluctuations may especially follow from changes in the actual or forecast operating results of BAWAG Group or its competitors, changes in the profit forecasts or failure to meet profit expectations of investors and securities analysts, assessments by investors with regard to the success and the effects of the Offering and the strategy described in this Prospectus as well as the assessment of the related risks, changes in the general economic conditions, changes in the shareholder structure, random events as well as other factors. Furthermore, external factors such as changing demand in the monetary or interest rate policy measures by central banks, regulatory changes or other external factors, seasonal influences or unique events can impact the revenues and the earnings of BAWAG Group and lead to fluctuations in the price of the Existing Shares. General fluctuations in share prices, especially the price of shares in other companies in the same industry BAWAG Group operates, or a general deterioration in capital markets, may lead to pressure on the price of the Existing Shares, and these fluctuations in share price may not necessarily be based on its business operations or earnings prospects.

3.4.5 Future capital increases could be dilutive and lead to substantial reductions in the value of the Existing Shares.

In the case of any future capital increase of the Company (for example, in response to more stringent capital requirements or in general to strengthen its capital position) by way of a rights issue, shareholders who have not exercised their subscription rights will no longer hold the same percentage of voting and dividend rights in the Company. Investors in certain jurisdictions (particularly in the United States) could be precluded from participating in the rights offering altogether. If a shareholder fails to exercise its rights to subscribe for new shares or is precluded from participating in the rights offering, its percentage share in the Company would be diluted in proportion to the percentage by which the Company's capital is increased. Correspondingly, such a shareholder's portion of any dividend or other distribution or voting rights would decrease.

Pursuant to the Austrian Stock Corporation Act (*Aktiengesetz*; the "**Stock Corporation Act**"), the ordinary shareholders' meeting of the Company may, in certain cases, adopt a resolution on a capital increase that excludes shareholders' subscription rights. In such case, shareholders who are not offered any of the shares to be issued could not prevent the dilution of their shares in the Company unless they purchased additional shares in the secondary market, for example on the stock exchange, possibly at a higher price. This also applies where new shares are issued exclusively to holders of convertible instruments, e.g. convertible bonds or bonds with warrants, issued by the Company.

A capital increase may also lead to a decline of the price of the Existing Shares, e.g., as a result of the market's dislike of the dilutive effect and/or a markdown of the subscription price.

3.4.6 The Company's ability to pay dividends or to meet its targeted dividend payout ratio depends primarily on the inflow of funds from the Company's subsidiaries and it may not be able to pay dividends in future financial years, because it does not have any balance sheet profit available for distribution, due to limitations under applicable laws and regulations, because it decides to retain capital for acquisitions or for other reasons.

A dividend may only be distributed if and to the extent the Company has recognized a balance sheet profit available for distribution in its audited annual non-consolidated financial statements prepared in accordance with the Austrian Commercial Code (*Unternehmensgesetzbuch*, "**Commercial Code**"). Accounting under these rules may differ materially from IFRS accounting. The balance sheet profit may be reduced for losses carried forward as well as for the formation or increase of reserves. While some reserves may be formed or increased (as the case may be) at the discretion of the management board of the Company, certain reserves must be formed or increased (as the case may be) by law.

The Company is a holding company with limited operational activities. Its ability to pay dividends, therefore, depends primarily on the inflow of sufficient funds from its subsidiaries. The volume of these funds in turn largely depends on the net assets, financial position and results of operations of the relevant subsidiary and is subject to applicable local laws and regulatory requirements such as applicable tax laws and other restrictions, including the treatment as subordinated liabilities in the event of the subsidiary's insolvency. There can be no assurance that the Company will be able to pay dividends or meet its targeted dividend payout ratio of up to 50% of profit after tax of BAWAG Group determined in accordance with IFRS in the future.

In addition, if BAWAG Group fails to meet the regulatory capital adequacy requirements or liquidity requirements under the applicable banking regulations, the competent supervisory authority may suspend or limit the payment of dividends.

Furthermore, should BAWAG Group issue instruments, such as AT1 instruments or profit participation certificates (*Genussscheine*) which provide for payments that are effectively preferential to dividend payments, the ability to pay dividends may be limited or even suspended. Finally, BAWAG Group may also decide to retain capital to finance acquisitions.

3.4.7 BAWAG Group will face additional administrative requirements and incur higher ongoing costs as a result of the Company's listing.

After the listing, the Company will be subject to the legal requirements for Austrian stock corporations listed on a public exchange for the first time. These include requirements relating to corporate governance, periodic financial reporting and other public disclosures of information (including those required by the stock exchange listing authorities) and other required disclosures. Furthermore, the Company would be expected to make other common disclosures, including regular calls with securities and industry analysts. There is no guarantee that BAWAG Group's accounting, controlling and legal or other corporate administrative functions will be capable of responding to these additional requirements without difficulties and inefficiencies that cause it to incur significant additional expenditures and/or expose it to legal, regulatory or civil costs or penalties. Furthermore, the preparation, convening and conduct of ordinary shareholders' meetings and the Company's regular communications with shareholders and potential investors will entail substantially greater expenses and risks. The management of the Company will need to develop the expertise necessary and, hence, to devote time to these additional requirements that it could have otherwise devoted to other aspects of managing its operations. These additional requirements could also entail substantially increased time commitments and costs for accounting, controlling and legal departments and other administrative functions in BAWAG Group. Any inability of BAWAG Group's administration to handle the additional demands placed on it by becoming a company with listed shares, as well as any costs resulting therefrom, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

3.4.8 Investors with a reference currency other than euro will become subject to foreign exchange rate risk when investing in the Existing Shares.

The Existing Shares are, and any dividends to be announced in respect of the Existing Shares will be, denominated in euro. An investment in the Existing Shares by an investor whose principal currency is not euro exposes the investor to currency exchange rate risk that may impact the value of the investment in the Existing Shares or any dividends.

3.4.9 Rights of shareholders in an Austrian stock corporation may differ from rights of shareholders in a corporation organized under the laws of another jurisdiction.

The Company is an Austrian stock corporation (*Aktiengesellschaft*) organized under the laws of Austria. The rights of the Company's shareholders are governed by the Company's articles of association and by Austrian law. These rights may differ in some respects from the rights of shareholders in corporations organized in jurisdiction other than Austria. In addition, it may be difficult for investors to enforce the securities laws of other jurisdictions, or to prevail with a claim against the Company based on those laws.

3.4.10 A suspension of trading in the Existing Shares could adversely affect the share price.

With respect to securities publicly traded on the Vienna Stock Exchange, the FMA is authorized to suspend, or request the relevant regulated market on which securities are admitted to trading to suspend, such securities from trading, if, in its opinion, the respective issuer's situation is such that continued trading would be detrimental to investors' interests. The FMA is further authorized to instruct the Vienna Stock Exchange to suspend trading in an issuer's securities in connection with measures taken against market manipulation and insider trading. The Vienna Stock Exchange must suspend trading in securities which no longer comply with the rules of the regulated market unless such a step would likely cause significant damage to investors' interests or orderly functioning of the market. In addition, if the Vienna Stock Exchange does not do so, the FMA could demand the suspension of trading in securities if it is in the interest of the orderly functioning of the market and does not impair investors' interests. Existing orders are deemed void if trading is suspended. Any suspension of trading in the Existing Shares (other than for protecting investors' interest) could adversely affect the price and the liquidity of the Existing Shares and, consequently, could have a negative effect on investors' ability to sell the Existing Shares at a satisfactory price.

4 THE OFFERING

4.1 Subject Matter of the Offering

The Offering consists of a total of up to 40,250,000 ordinary bearer shares with no par value (*Stückaktien*), each such share with a notional value of € 1.00 in the share capital and dividend rights as from January 1, 2017 (excluding, however, an interim dividend (*Abschlagszahlung auf den Bilanzgewinn*) of € 51.6 million distributed on September 11, 2017 (the "**Interim Dividend**"), see "*6.1 General Rules on Allocation of Profits and Dividend Payments*"), comprising:

- up to 17,910,181, 13,108,399, 2,647,613 and 1,333,807 Firm Shares from the holdings of the Cerberus Shareholders, the GoldenTree Shareholders, PSH and the remaining Selling Shareholders respectively; and
- up to 5,250,000 Over-Allotment Shares from the holdings of the Cerberus Shareholders, the GoldenTree Shareholders and the remaining Selling Shareholders (other than PSH and certain minority shareholders), respectively, to cover a potential Over-Allotment (as defined below).

The Offering, which consists of (i) a public offering to retail and institutional investors in Austria and (ii) a private placement outside Austria to selected institutional investors, including a private placement within the United States to QIBs in reliance on Rule 144A under the Securities Act, and outside of the United States to certain other eligible institutional investors in reliance on Regulation S.

As of the date of this Prospectus, the registered share capital of the Company amounts to € 100,000,000, divided into 100,000,000 ordinary bearer shares with no par value. All Existing Shares issued as of the date of this Prospectus are fully paid up (see "*20.1.1 Registered Share Capital*").

The Selling Shareholders (other than PSH and certain minority shareholders) will make up to 5,250,000 Over-Allotment Shares available to the Stabilization Manager (for the account of the Underwriters) by way of a share loan to cover a potential Over-Allotment (as defined below). The Selling Shareholders (other than PSH and certain minority shareholders) have also granted the Underwriters the option to purchase up to 5,250,000 Existing Shares at the Final Offer Price; the final number of Existing Shares to be placed will be determined by the Cerberus Shareholders and the GoldenTree Shareholders jointly with the Joint Global Coordinators and Joint Bookrunners on the basis of the purchase orders submitted by investors that have been collated in the order book prepared during the bookbuilding process and after the Offer Period has expired; this number of shares will not exceed 15% of the Firm Shares. It is anticipated that this will take place on or about October 24, 2017. See "*4.7 Stabilization Measures, Over-Allotment and Greenshoe Option*".

The Offer Shares carry the same rights as all other Existing Shares and confer no additional rights or benefits. All Existing Shares, including the Offer Shares, are subject to and governed by Austrian corporate law. The ISIN of the Existing Shares is AT0000BAWAG2.

The Selling Shareholders will receive the proceeds from the sale of the Firm Shares, and the Selling Shareholders (other than PSH and certain minority shareholders) will receive the proceeds from a potential sale of Over-Allotment Shares to the extent the Greenshoe Option is exercised (but must pay commission in connection thereto). The Company will receive no proceeds from the Offering.

4.2 Selling Shareholders

As of the date of this Prospectus, the Company is ultimately controlled by several funds and accounts under management of Cerberus and GoldenTree, together holding directly or indirectly approximately 94% of the Existing Shares and voting rights in the Company and, as a result, such holders currently have the power to govern the financial and operating policies of the Company, including to influence the decisions which the Company will take with respect to the Offering. At or around Pricing, 97,352,387 Existing Shares will be distributed by PSH to its shareholders or entities designated for this purpose by the shareholders. As a result of this distribution and immediately prior to the completion of the Offering, approximately 53.0% of the Existing Shares will be held directly by the Cerberus Shareholders, approximately 38.8% will be held directly by the GoldenTree Shareholders, approximately 2.6% will be held by PSH, approximately 4.0% of the Existing Shares will be held by the remaining, minority Selling Shareholders (i.e., 2007 Co-Investment Portfolio L.P., Mr. Hannes Androsch, Aozora Bank, Ltd, Citigroup Capital Partners II Employee Master Fund L.P., D.E. Shaw Galvanic Portfolios, LLC, StepStone Capital Partners II Cayman Holdings L.P., and StepStone Capital Partners II Onshore, L.P.), and approximately 1.5% of the Existing Shares will be held by a variety of Austrian and non-Austrian minority shareholders.

For an explanation of the shareholder structure of the Company see "*19 Shareholder Structure*".

Upon completion of the Offering and assuming full placement of all offered Firm Shares and full exercise of the Greenshoe Option, the Cerberus Shareholders and the GoldenTree Shareholders will hold approximately 32.1% and 23.5%, respectively, of the Existing Shares and will be subject to deconsolidation agreements providing for the avoidance of control; and therefore they will not, and such funds and accounts under management of Cerberus and GoldenTree will no longer, control the Company (see "*16.2.1 Deconsolidation Agreements*"). All of the shares that PSH continues to hold following the distribution are expected to be sold in the Offering.

4.3 Price Range, Offer Period, Offer Price and Allotment

The Price Range within which offers to purchase may be submitted ranges from € 47.00 to € 52.00 per Offer Share. Prior to the Offering, there has been no public market for the Existing Shares.

The Offering allows investors to submit purchase offers for the Existing Shares during the Offer Period. On the last day of the Offer Period, purchase offers may be submitted until or until about 14:00 (Central European Summer Time) by institutional investors. Retail investors may submit their orders only until (and including) the penultimate day of the Offer Period, i.e. October 23, 2017. Furthermore, purchase orders from retail investors must be expressed in integral euro amounts or increments of 50 Eurocents. Retail investors may place orders with more than one bank.

Retail investors who wish to purchase Offer Shares are advised to contact their bank, their broker or their financial advisor about the further details of the procedures to purchase Offer Shares.

The Cerberus Shareholders and the GoldenTree Shareholders reserve the right, after consultation with the Joint Global Coordinators and Joint Bookrunners, to reduce or increase the number of Offer Shares, to reduce or increase the upper/lower limits of the Price Range and/or to extend or shorten the Offer Period or terminate the Offering. To the extent that the terms of the Offering are changed, such change will be announced through electronic media, on the Company's website (at www.bawaggroup.com under the section "investor relations") and published, if required by the directly applicable Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (the Market Abuse Regulation or "**MAR**") and/or the Capital Markets Act, as an ad hoc announcement and as a supplement to this Prospectus. Investors who have submitted purchase orders will not, however, be informed individually. Changes to the number of Offer Shares or the Price Range or extension or shortening of the Offer Period will not invalidate purchase orders already submitted. Under the Capital Markets Act, investors who have submitted a purchase order before a supplement is published are granted a period of two business days from publication of the supplement to withdraw their orders, provided that the new circumstance or material mistake that makes a supplement necessary occurred prior to the final expiration of the Offering and prior to the delivery of the shares. Instead of withdrawing the offers to purchase placed prior to the publication of the supplement, within two days of publication of the supplement, the investor may change such orders or submit new limited or unlimited orders. Under certain conditions the Joint Global Coordinators and Joint Bookrunners, acting on behalf of the Underwriters, may terminate the underwriting agreement among the Company, the Selling Shareholders and each of the Underwriters (the "**Underwriting Agreement**"), including after the Offer Shares have been allotted and the Existing Shares have been listed, up to delivery and settlement (see "*25.4 Termination / Indemnification*").

Once the Offer Period has expired, the final number of Offer Shares and the Final Offer Price will be determined jointly by the Cerberus Shareholders and the GoldenTree Shareholders and the Joint Global Coordinators and Joint Bookrunners using the order book prepared during the bookbuilding process ("**Pricing**"). This is expected to take place on or about October 24, 2017. The Final Offer Price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book. In the bookbuilding process, the Underwriters collect purchase orders from investors at several prices between the lower and upper limits of the price range. Purchase bids can be revised by the bidding investor before the book closes. The orders received during the bookbuilding process will be evaluated according to the prices offered and the investment horizons of the respective investors. This method of setting the number of shares that will be placed at the Final Offer Price is generally intended to maximize proceeds. Consideration will also be given as to whether the Final Offer Price and the number of shares to be placed allows for the reasonable expectation that the share price will demonstrate steady performance in the secondary market given the demand for the Existing Shares noted in the order book. Attention will be paid not only to the prices offered by investors and the number of investors wanting shares at a particular price but also to the composition of the group of shareholders in the Company that would result at a given price (so-called investor mix) as well as expected investor behavior. No expenses or taxes will be charged to purchasers of Offer Shares, except for customary banking fees. Prospective investors are advised to inform themselves about these costs.

No investor or class of investors will receive preferential treatment in respect of allocations in the Offering. The allotment of Offer Shares to retail investors and institutional investors will be decided after consultation with the Joint Global Coordinators and Joint Bookrunners. The decision will ultimately be taken jointly by the Cerberus Shareholders and the GoldenTree Shareholders at their sole discretion. Allotments will be made on the basis of the quality of the individual investors and investor orders and other important allotment criteria to be determined after consultation with the Joint Global Coordinators and Joint Bookrunners. Thus, it is possible that investors who have submitted a purchase order are not allocated any shares or that they are allocated less shares than the number of shares contemplated in the purchase orders they have submitted, for example because the price they have set in their respective orders is lower than the Final Offer Price, or because the Offering has been oversubscribed. Particularly if the placement volume proves insufficient to satisfy all orders placed at the Final Offer Price, the Underwriters reserve the right to reject orders, or to accept them in part only.

The final number of Offer Shares and the Final Offer Price are expected to be published on or about October 24, 2017 by means of an ad hoc announcement in various media distributed across the entire European Economic Area (the "**EEA**"), on the Company's website (at www.bawaggroup.com under the section "investor relations") and by short notice in the Austrian official gazette (*Amtsblatt zur Wiener Zeitung*) shortly thereafter. Such information will also be deposited with the FMA in accordance with the Capital Markets Act on or about October 24, 2017. Investors who have placed purchase orders with one of the Underwriters can obtain information from that Underwriter about the Final Offer Price and the number of Offer Shares allotted to them, at the earliest, on the first bank working day following the setting of the Final Offer Price. Trading in the Existing Shares may commence before investors have received notice of the number of Offer Shares allotted to them. Book-entry delivery of the allotted Offer Shares against payment of the Final Offer Price is expected to occur on or about October 30, 2017.

Prospective investors seeking to purchase Offer Shares are advised to contact their bank, broker or other financial adviser for further details regarding the manner in which purchase orders for Offer Shares are to be processed. In the case of any unsuccessful applications, to the extent that any surplus application monies have already been paid by a prospective investor to its bank, broker or other financial adviser, investors are advised to contact their respective bank, broker or other financial adviser for details regarding the refund of such monies.

4.4 Expected Timetable for the Offering

The anticipated timetable for the Offering, which is subject to extension or shortening, is as follows:

October 11, 2017	Approval of this Prospectus by the FMA. Publication of the approved Prospectus on the Company's website (www.bawaggroup.com) Commencement of marketing (roadshow) Application for the admission to trading filed with the Vienna Stock Exchange (*Wiener Börse*)
October 12, 2017	Commencement of the Offer Period
October 23, 2017	Close of the Offer Period for retail investors
October 24, 2017	Close of the Offer Period for institutional investors at or at about 14:00 (Central European Summer Time) Listing approval issued by the Vienna Stock Exchange Determination of the Final Offer Price and final number of shares allocated; publication of the Final Offer Price and number of shares placed as an ad hoc announcement in various media distributed across the entire European Economic Area and on the Company's website (www.bawaggroup.com)
October 25, 2017	First day of trading of the Existing Shares on the Vienna Stock Exchange
October 30, 2017	Book-entry delivery of the Offer Shares against payment of the Final Offer Price

This Prospectus and any supplement thereto will be published on the Company's website at www.bawaggroup.com. In addition, copies of the printed Prospectus and any supplements thereto will be available upon publication free of charge during regular business hours at the offices of the Company (Wiesingerstraße 4, 1010 Vienna, Austria).

4.5 Stock Exchange Admission and Commencement of Trading

The Company expects to apply for admission of the Existing Shares to trading on the Official Market on or about October 11, 2017. The decision on the admission of the Existing Shares is expected to be announced on or about October 24, 2017. Subject to the approval by the Vienna Stock Exchange, trading of the Existing Shares on the Official Market (Prime Market segment) is expected to commence on or about October 25, 2017.

4.6 Delivery and Payment

The Offer Shares will be represented by one or more global certificates (*Sammelurkunde*) deposited with OeKB CSD, Strauchgasse 1-3, 1010 Vienna, Austria. The Underwriters expect to deliver the Offer Shares, assigned and allotted in the Offering, in book-entry form through the facilities of OeKB CSD, Euroclear and Clearstream against payment of the Final Offer Price on or about October 30, 2017.

4.7 Stabilization Measures, Over-Allotment and Greenshoe Option

In connection with the placement of the Offer Shares, the Stabilization Manager or persons acting on its behalf may, acting in accordance with legal requirements (Article 5 para. 4 and 5 of the MAR), sell additional shares in an Over-Allotment (as defined below) and take stabilization measures during the Stabilization Period (as defined below) to support the market price of the Existing Shares and thereby counteract any selling pressure.

Stabilization measures may be effected on the Vienna Stock Exchange, in the OTC market or otherwise. However, the Stabilization Manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date of the commencement of trading of the Existing Shares on the Official Market – expected to be October 25, 2017 – up to 30 calendar days after such date (the "**Stabilization Period**").

These measures may result in a market price for the Existing Shares that is higher than it would otherwise have been. Moreover, the market price may, temporarily, be at an unsustainable level. Stabilization measures shall not be executed above the Final Offer Price.

Under the possible stabilization measures, investors may, in addition to the Firm Shares, be allotted up to 5,250,000 Over-Allotment Shares ("**Over-Allotment**"). In connection with potential Over-Allotments, the Stabilization Manager will be provided for the account of the Underwriters in the form of a securities loan with up to 5,250,000 Over-Allotment Shares; this number of shares will not exceed 15% of the Firm Shares. In connection with potential Over-Allotments, the Selling Shareholders (other than PSH and certain minority shareholders) will grant the Greenshoe Option. The Greenshoe Option may be exercised for a number of Existing Shares up to the number of shares that have been placed by way of Over-Allotments. The Greenshoe Option shall be exercisable by the Stabilization Manager and will terminate 30 calendar days after commencement of the stock exchange trading of the Existing Shares.

During the Stabilization Period, the Stabilization Manager will ensure adequate public disclosure of the details of all stabilization transactions no later than the end of the seventh daily market session following the date of the execution of such transactions.

Once the Stabilization Period has ended, an announcement will be made by the Stabilization Manager within one week in various media outlets distributed across the entire European Economic Area as to (i) whether stabilization measures were taken, (ii) when price stabilization transactions started and when they last occurred, (iii) the Price Range within which stabilization transactions were carried out for each of the dates during which stabilization transactions were carried out and (iv) the trading venues on which stabilization transactions were carried out, where applicable. Exercise of the Greenshoe Option, the timing of its exercise and the number of shares concerned will also be announced promptly in the manner previously stated.

Exercise of the Greenshoe Option will be disclosed to the public promptly, together with all appropriate details, including in particular the date of exercise of the Greenshoe Option and the number and nature of securities involved.

4.8 Lock-Up Agreements

4.8.1 Lock-Up of the Company

In the Underwriting Agreement the Company will commit to an obligation vis-à-vis the Underwriters that the Company, its Management Board or the supervisory board (*Aufsichtsrat*) of the Company (the "**Supervisory Board**") will not, and will not agree to, without the prior written consent of Goldman Sachs International and Morgan Stanley, which consent may not be unreasonably withheld or delayed, during the period commencing on the date of the Underwriting Agreement and ending 180 days after the first day of trading of the Company's Existing Shares on the Official Market:

(a) announce or effect an increase of the share capital of the Company out of any authorized capital;

(b) submit a proposal for a capital increase to any meeting of the shareholders for resolution;

(c) announce, effect or propose the issue of securities with conversion or option rights on the Company's shares; and

(d) enter into a transaction or perform any action economically similar to those described in (a) through (c) above.

The Company may, however, (i) issue or sell any Existing Shares or other securities to employees and members of executive bodies of the Company or its subsidiaries under future employment and management participation plans and (ii) pursue any corporate actions undertaken by the Company for the purposes of entering into any agreement regarding, or resolution upon, the entering into any joint venture or the acquisition of any companies, provided that the parties to the joint venture or the acquiring entity to which such Existing Shares will be issued agree to be bound by the same lock-up undertaking as the Company. Furthermore, the lock-up restrictions shall not apply in circumstances of a restructuring requested by the supervisory authorities.

4.8.2 Lock-Up of the Selling Shareholders

In the Underwriting Agreement, the Selling Shareholders will each, severally and not jointly, commit to an obligation vis-à-vis the Underwriters that each will not, without the prior written consent of Goldman Sachs International and Morgan Stanley, which consent may not be unreasonably withheld or delayed, during the period commencing on the date of the Underwriting Agreement and ending, in the case of the Cerberus Shareholders and the GoldenTree Shareholders 450 days, and, in the case of the other Selling Shareholders (including PSH), 180 days after the date of the first day of trading of the Existing Shares on the Official Market, except for (i) transactions among the Selling Shareholders and any affiliate of the Selling Shareholders, provided such affiliate assumes towards the Underwriters the same obligation as the Selling Shareholders for the then remaining part of the lock-up period of the transferring Selling Shareholders or (ii) in connection with the acceptance by the Selling Shareholders of a public takeover bid for the Company:

(a) offer, pledge, allot, distribute, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, transfer or otherwise dispose of, directly or indirectly, any Lock-Up Shares (as defined below);

(b) cause or approve, directly or indirectly, the announcement, execution or proposal of any issuance of any securities convertible into or exercisable or exchangeable for Lock-Up Shares (as defined below);

(c) enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of Lock-Up Shares (as defined below);

(d) whether any such transaction described in clause (a) to (c) above is to be settled by delivery of Lock-Up Shares (as defined below) or such other securities, in cash or otherwise;

(e) make any demand for or exercise any right with respect to, the registration under U.S. securities laws of any Lock-Up Shares (as defined below) or any security convertible into or exercisable or exchangeable for Lock-Up Shares;

(f) cause or approve, directly or indirectly, the announcement, execution or implementation of any increase in the share capital of the Company or a direct or indirect placement of Lock-Up Shares (as defined below);

(g) propose, directly or indirectly, any increase in the share capital of the Company to any meetings of the shareholders for resolution, vote in favor of such a proposed increase or vote in favor of any other capital increase proposed with respect to the Company; or

(h) enter into a transaction or perform any action economically similar to those described in (a) through (f) above.

For purposes of the above-mentioned lock-up commitments of the Selling Shareholders, Lock-Up Shares ("**Lock-Up Shares**") shall mean:

(a) with respect to the Cerberus Shareholders collectively and the GoldenTree Shareholders collectively: (i) in the period commencing on the first day of trading of the Existing Shares on the Official Market and ending 180 days thereafter ("**Phase 1**"), all Existing Shares held by the Cerberus Shareholders and the GoldenTree Shareholders, as applicable, following the Offering; (ii) in the period commencing the day after Phase 1 and ending 180 days thereafter ("**Phase 2**"), all Existing Shares held by the Cerberus Shareholders and the GoldenTree Shareholders, as applicable, following the Offering other than a number of Existing Shares equal to the number of Existing Shares sold by the Cerberus Shareholders and the GoldenTree Shareholders, as applicable, in the Offering (including any Over-Allotment Shares sold in connection with the exercise of the Greenshoe Option); and (iii) in the period commencing the day after Phase 2 and ending 90 days thereafter ("**Phase 3**"), all Existing Shares then held by the Cerberus Shareholders and the GoldenTree Shareholders, as applicable, other than a number of Existing Shares equal to the number of Existing Shares sold by the Cerberus Shareholders and the GoldenTree Shareholders, as applicable, in the Offering (including any Over-Allotment Shares sold in connection with the exercise of the Greenshoe Option);

(b) with respect to each Selling Shareholder other than the Cerberus Shareholders and the GoldenTree Shareholders: in Phase 1 only, all of the Existing Shares held by the applicable Selling Shareholder.

In the event either the Cerberus Shareholders or the GoldenTree Shareholders, or both, choose to sell a number of Existing Shares greater than 1% of the total number of Existing Shares then outstanding in Phase 2 and/or Phase 3 (a "**Secondary Placement**"), both the Cerberus Shareholders and the GoldenTree Shareholders agree to refrain from selling any Existing Shares in addition to those being sold in the Secondary Placement during a period commencing on the day of the Secondary Placement and ending 90 days thereafter.

If in Phase 2 or Phase 3 either the Cerberus Shareholders or the GoldenTree Shareholders do not sell the maximum amount of Existing Shares they are permitted to sell pursuant to the above-mentioned commitments, neither the GoldenTree Shareholders or the Cerberus Shareholders may assign or transfer to the other shareholder group (GoldenTree Shareholders or Cerberus Shareholders, as applicable) their right to sell additional Existing Shares in the respective phase.

If the Cerberus Shareholders or the GoldenTree Shareholders decide to sell Existing Shares in Phase 2 or Phase 3, they will contact any Underwriter selected by it, who will contact the other shareholder group (GoldenTree Shareholders or Cerberus Shareholders, as applicable) to determine its interest in participating in the sale, whereupon such Underwriter will evaluate the best size of the overall offering and the timing thereof. Such Underwriter shall ensure that the other shareholder group receives notice of such decision at least three trading days prior to the completion of any such sale.

The preceding lock-up restrictions shall not, in the case of the Cerberus Shareholders and GoldenTree Shareholders, apply to:

(a) any disposal for the purposes of pledging or encumbering any Existing Share to or for the benefit of any Underwriter (or their affiliates) that has entered into a Margin Loan (as defined below) as lender (a "**Margin Loan Lender**") in connection with a Margin Loan; or

(b) any disposal for the purposes of transferring any Existing Shares pursuant to any enforcement of security over Existing Shares granted by the Cerberus Shareholders or GoldenTree Shareholders to or for the benefit of a Margin Loan Lender in connection with a Margin Loan, provided that any proposed transferee of such Existing Shares pursuant to an enforcement of security shall have agreed, for the remainder of Phase 1, to be bound, only in relation to such Existing Shares transferred pursuant to this subparagraph (b), by the same restrictions applicable to the Cerberus Shareholders and GoldenTree Shareholders described above as if it were the transferor by executing and delivering to the Underwriters (or their affiliates) a lock-up agreement, it being understood that the right of such transferee pursuant to this subparagraph (b) to sell Existing Shares released from the lock-up restrictions in accordance with the above-described lock-up release provisions shall preempt the rights of the transferor (the Cerberus Shareholders or GoldenTree Shareholders, as applicable), such that the number of Existing Shares the transferor is permitted to sell in a particular phase will be reduced one-to-one by the number of Existing Shares sold or to be sold during a particular phase by the transferee pursuant to this subparagraph (b).

For purposes of the foregoing, "**Margin Loan**" means any margin loan facility made available to the Cerberus Shareholders or GoldenTree Shareholders (or any transferee of Existing Shares disposed of in accordance with the foregoing provisions), pursuant to the terms of a margin loan facility agreement entered into among the Cerberus Shareholders or GoldenTree Shareholders or a transferee of Existing Shares disposed of in accordance with the foregoing provisions (as borrower) and any Margin Loan Lender (as lender).

4.8.3 Lock-Up of the Management Board

In accordance with the Underwriting Agreement, each of the members of the Management Board will, severally and not jointly, commit to an obligation vis-à-vis the Underwriters that, during the period commencing on the date of the Underwriting Agreement and ending 360 days after the first day of trading of the Existing Shares on the Official Market, except for sales of such individuals' respective shareholding to raise funds required to satisfy personal tax and/or loan obligations and/or the pledge, hypothecation or other granting of a security interest in any Existing Shares to one or more banks or financial institutions as collateral or security for any loan, advance or extension of credit and any transfer upon foreclosure upon such shares or thereafter, provided that Goldman Sachs International and Morgan Stanley are consulted beforehand, he will not:

(a) offer, pledge, allot, distribute, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, transfer or otherwise dispose of, directly or indirectly, any Existing Shares;

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of Existing Shares; whether any such transaction described in clause (a) above is to be settled by delivery of Existing Shares or such other securities, in cash or otherwise;

(c) make any demand for or exercise any right with respect to, the registration under U.S. securities laws of any Existing Shares held by such member or any security convertible into or exercisable or exchangeable for Existing Shares held by such member; or

(d) enter into a transaction or perform any action economically similar to those described in (a) through (c) above.

4.9 Interests of Parties Participating in the Offering

In connection with the Offering and admission to trading of the Existing Shares, the Underwriters have entered into a contractual relationship with the Company and the Selling Shareholders. The Underwriters act for the Company and the Selling Shareholders on the Offering and coordinate the structuring and execution of the Offering.

In addition, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, and Morgan Stanley are acting as Joint Global Coordinators and Joint Bookrunners. Merrill Lynch International, Barclays Bank PLC, and UBS Limited are acting as additional joint bookrunners and COMMERZBANK Aktiengesellschaft and Raiffeisen Centrobank AG are acting as co-lead managers. In addition, Raiffeisen Centrobank AG will act as specialist and market maker for the Existing Shares. Raiffeisen Centrobank AG has been appointed as paying agent.

The Underwriters will receive a commission and other payments upon successful completion of the Offering. The amount of the commission will depend on the size of the Offering and the Final Offer Price. The Underwriters therefore have an interest that as many shares as possible are placed at the highest price possible. Raiffeisen Centrobank AG will not receive fees as specialist but will be receive a remuneration for its services as paying agent after completion of the Offering.

The Underwriters and their affiliates have provided and may in the future, from time to time, provide services to BAWAG Group and/or certain of the Selling Shareholders in the ordinary course of business in their capacity as financial institutions, in particular advisory services in connection with M&A transactions, financing transactions and margin loans related to Existing Shares. They may at any time in the future act as principal or agent for one or more than one party, hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities or loans of BAWAG Group.

In the event of a successful Offering, the other Underwriters may also be selected as financial advisors in future transactions or act as lender or arranger of future financing transactions or trade for their own account or the accounts of customers, in debt or equity securities or loans of BAWAG Group.

Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for their own account, may acquire shares in the Offering and in that capacity may retain, purchase or sell for its own account such shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Existing Shares. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

As of the date of this Prospectus, several funds and accounts under management of Cerberus and GoldenTree together hold through PSH approximately 94% of the Existing Shares in the Company and as such have an influence on the decisions which the Company will take with respect to the Offering. The Selling Shareholders will receive the proceeds resulting from the Offering. This includes the Cerberus Shareholders and the GoldenTree Shareholders. The ultimate controlling persons over the Cerberus Shareholders and GoldenTree Shareholders are Cerberus and GoldenTree, respectively. Consequently, Cerberus and GoldenTree, respectively, have an interest in the success of the Offering on the best possible terms.

5 REASONS FOR THE OFFERING, USE OF PROCEEDS AND COSTS OF THE OFFERING

5.1 Proceeds and Costs of the Offering

The Company will not receive any proceeds from the Offering. The total costs and expenses from the Offering and listing are expected to be approximately € 83.9 million (low end), € 86.9 million (mid-point) and € 89.9 million (high end), respectively, which will be borne by PSH, except for the commission payable under the Underwriting Agreement which will be borne by all Selling Shareholders on a pro rata basis (see "*16.2.2 Agreement on the Assumption of Offering-related Costs and Risks*" for further details, also in relation to a potential reimbursement by the Cerberus Shareholders and the GoldenTree Shareholders).

The Selling Shareholders will receive the proceeds resulting from the sale of the Firm Shares, and the Selling Shareholders (other than PSH and certain minority shareholders) will receive the proceeds resulting from a potential sale of Over-Allotment Shares to the extent the Greenshoe Option is exercised.

The amount of the proceeds of the Offering as well as the costs related to the Offering depend on the Final Offer Price, which also determines the Underwriters' commissions, and on the number of shares that will be placed in the Offering.

The Company estimates that at the low end, mid-point and high end of the Price Range, gross proceeds to the Selling Shareholders (assuming placement of the maximum number of Firm Shares and assuming full exercise of the Greenshoe Option) would amount to approximately € 1,892 million (low end), € 1,992 million (mid-point) and € 2,093 million (high end), respectively.

Assuming a Final Offer Price at the low end, mid-point and high end of the Price Range, and that the maximum number of Firm Shares is placed (and the Greenshoe Option has been fully exercised), and assuming further payment in full of the discretionary fee of up to € 33.1 million (low end), € 34.9 million (mid-point) and € 36.6 million (high end), respectively, the commission payable to the Underwriters will amount to € 56.8 million, € 59.8 million and € 62.8 million, respectively.

Assuming that the maximum number of Firm Shares is placed (and the Greenshoe Option has been fully exercised), the Company estimates that at the low end, mid-point and high end of the Price Range, net proceeds for the Selling Shareholders would amount to approximately € 1,808 million, € 1,905 million and € 2,003 million, respectively.

Investors will not be charged with expenses by the Company, the Selling Shareholders or the Underwriters in connection with their role as underwriters.

5.2 Reasons for the Offering and the Listing; Use of Proceeds

At or around Pricing, the Selling Shareholders will hold directly approximately 98.5% of the Existing Shares. The Selling Shareholders intend to sell up to approximately 40.3% of the Existing Shares in the Offering.

The Company also intends to achieve better access to the capital markets due to the planned listing of the Existing Shares on the Official Market. Furthermore, following the listing of the Existing Shares on the Official Market, the Company may issue additional shares as acquisition currency in potential future M&A transactions.

The Company will not receive any proceeds from the Offering.

6 DIVIDEND POLICY

6.1 General Rules on Allocation of Profits and Dividend Payments

Shareholders are entitled to an annual dividend declared in respect of the Company's financial year. Dividend payments in any given financial year are resolved upon in the following year at the Company's annual ordinary shareholders' meeting on the basis of a proposal made by the Management Board and the Supervisory Board, without the Company's annual ordinary shareholders' meeting being bound by such proposal.

Dividends are distributed to the shareholders on a *pro rata* basis, based on the contributed capital. Capital contributed during a business year will receive a *pro rata* dividend distribution since the day of the capital contribution. Upon the issuance of new shares other rules for dividend rights may be determined.

The Company's ability to pay dividends is determined based on the Company's separate unconsolidated financial statements prepared in accordance with the Austrian Commercial Code (*Unternehmensgesetzbuch*, "**Commercial Code**") and other applicable Austrian law ("**Austrian GAAP**"). Dividends may only be declared and paid from the accumulated profit (*Bilanzgewinn*) recorded in the Company's separate unconsolidated annual financial statements as approved by the Supervisory Board or the Company's annual ordinary shareholders' meeting. In determining the amount available for distribution, the annual surplus (*Jahresüberschuss*) or annual loss (*Jahresfehlbetrag*), as the case may be, must be adjusted to account for any accumulated undistributed profit or loss from previous financial years as well as for withdrawals from or allocations to reserves. Certain reserves must be established by law, and such reserves must therefore be deducted from the annual surplus.

The Company distributed dividends in the amount of € 309 million (dividend per the then only existing share: € 309 million), € 12 million (dividend per the then only existing share: € 12 million) and € 58 million (dividend per the then only existing share: € 58 million) for the financial years ended December 31, 2016, 2015 and 2014, respectively. Furthermore, on September 11, 2017, the Company paid the Interim Dividend of € 51.6 million out of the profits accrued since January 1, 2017 to PSH. The distributed profits represented 0.29 percent points of the CET1 ratio (Fully Loaded) as of June 30, 2017 (i.e., 0.29 percent points would have been deducted from such CET1 ratio if the Interim Dividend had already been accounted for as of June 30, 2017).

The Offer Shares will be entitled to profit participation as from January 1, 2017, i.e., for the full financial year 2017 (excluding, however, the Interim Dividend) and for all subsequent financial years.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For more information on the taxation of dividends see "*24.1.2.1 Taxation of Dividends*".

6.2 Dividend Policy

The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to approval at the annual ordinary shareholders' meeting. The Company expects that the principal source of funds for the payment of dividends, if any, will be interest and similar income generated by it as well as dividends and other payments received from its current and future subsidiaries. The Company's future dividend policy targets a distribution of 50% of profit of BAWAG Group after tax determined in accordance with IFRS in a given financial year as dividends assuming that the payment of such dividends is consistent with its long-term and sustainable business development and compliant with existing and proposed regulatory requirements. In addition to the targeted distribution, the Company will assess annually whether excess capital, if any, available above the target level of a Fully Loaded CET1 ratio of at least 12% allows for higher distributions to the shareholders, after taking into consideration investments in organic growth, pending acquisitions and other M&A opportunities that meet the Company's return profile. However, as a stock corporation under Austrian law, the Company's ability to pay dividends will depend on the amount of accumulated profit pursuant to Austrian GAAP in a given financial year. The Company can provide no assurance regarding the amounts of future accumulated profits, if any, and consequently, the Company can provide no assurance that it will pay dividends in future years. Moreover, the Company's results of operations set out in the consolidated financial statements and interim consolidated financial statements, respectively, may not be indicative of the amounts of future dividend payments.

Furthermore, if the Company decides to pay a dividend in respect of the financial year 2017 in accordance with Austrian GAAP, the Company targets a distribution of 50% of profit of BAWAG Group after tax from the fourth quarter 2017 (determined in accordance with IFRS and calculated on the basis of the average quarterly profits of 2017).

7 CAPITALIZATION AND INDEBTEDNESS

Investors should read the tables in this section in conjunction with "*9 Selected Financial and Business Information*", "*10 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", the Unaudited Interim Condensed Financial Statements and the Audited Consolidated Financial Statements, including the notes thereto, which are presented in section "*29 Financial Information*".

7.1 Capitalization

The Offering does not involve the issuance of new shares by the Company and the Company will not receive any cash proceeds from the Offering. The Offering will have no effect on the Company's capitalization as reflected below.

The following table sets forth an overview of BAWAG Group's capitalization as of June 30, 2017 derived from the Unaudited Interim Condensed Financial Statements and the Company's accounting records prior to the implementation of the Offering. The table does not include contingent liabilities. Not included either are negative fair values of derivative financial instruments disclosed in trading liabilities and other liabilities, provisions, accruals and other non-financial liabilities disclosed in other liabilities as well as income tax liabilities.

	As of June 30, 2017
	(unaudited) **(in € million)**
Total current debt[1)]	**24,892**
Guaranteed[2)]	139
Secured	154
Unguaranteed/Unsecured	24,599
Total non-current debt[3)]	**9,198**
Guaranteed	480
Secured	5,108
Unguaranteed/Unsecured	3,610
Subordinated debt	**573**
Total of current, non-current and subordinated debt	**34,663**
Share capital	100
Capital reserve	1,094
Retained earnings	2,170
Accumulated other comprehensive income (loss), net of tax[4)]	(17)
Shareholders' Equity[5)]	**3,348**
Non-controlling interests	1
Total equity	**3,349**
Total of current, non-current and subordinated debt and equity	**38,011**

1) Total of (i) deposits from customers and banks with maturities of up to one year, (ii) short-term borrowings, (iii) financial liabilities at fair value through profit and loss with maturities up to one year, and (iv) senior long term debt with maturities up to one year.
2) This consists of debt guaranteed by Austria under the PSK-G.
3) Total of (i) deposits form customers and banks with maturities of more than one year, (ii) central bank funds with maturities of more than one year, (iii) financial liabilities at fair value through profit and loss with maturities of more than one year, and (iv) senior long-term debt with maturities of more than one year.
4) Including available-for-sale reserve net of tax, cash flow hedge reserve net of tax and actuarial gains/losses net of tax.
5) Including interim result as of June 30, 2017.

Source: BAWAG Group's Financial Statements and Company information.

Between June 30, 2017, and the date of this Prospectus, there have been no material changes to BAWAG Group's capitalization as set out above.

7.2 Net Financial Indebtedness

The following table shows an overview of BAWAG Group's net financial indebtedness as of June 30, 2017 derived from the Unaudited Interim Condensed Financial Statements and the Company's accounting records prior to the implementation of the Offering.

	As of June 30, 2017
	(unaudited) **(in € million)**
A. Cash and central bank balances	2,587
B. Trading securities	19
C. Liquidity (A + B)	2,606
D. Current financial receivables[1)]	**6,648**
E. Current financial liabilities[2)]	24,577
F. Current portion of non-current financial debt (incl. bonds)[3)]	279
G. Other current financial debt[4)]	52
H. Current financial liabilities and debt (E + F + G)	**24,908**
I. Net current financial indebtedness (H – D – C)	**15,654**
J. Non-current financial liabilities[5)]	4,966
K. Non-current financial debt (incl. bonds)[6)]	4,789
L. Non-current financial liabilities and debt (J + K)	**9,755**
M. Net financial indebtedness (I + L)	**25,409**

1) Total of (i) interbank balances (without central banks) with maturities up to one year, (ii) financial assets available for sale with maturities of up to one year, (iii) financial assets at fair value through profit and loss with maturities of up to one year (without trading securities), (iv) claims arising from loans with maturities of up to one year, (v) financial assets held to maturity with maturities of up to one year, and (vi) financial claims with maturities of up to one year (recognized as other assets).
2) Total of (i) deposits form customers and banks with maturities of up to one year, (ii) financial liabilities at fair value with maturities of up to one year, and (iii) financial liabilities with maturities of up to one year (recognized as other liabilities).
3) Total of (i) long-term debt with maturities of up to one year, and (ii) subordinated capital instruments with maturities of up to one year.
4) Short term notes and non-listed private placements with maturities of up to one year.
5) Total of (i) deposits from customers and banks with maturities of more than one year, (ii) central bank funds with maturities of more than one year, and (iii) financial liabilities at fair value through profit and loss with maturities of more than one year.
6) Total of (i) long-term debt with maturities of more than one year, (ii) short-term notes and non-listed private placements with maturities of more than one year, and (iii) subordinated capital instruments with maturities of more than one year.

Source: BAWAG Group's Financial Statements and Company information.

Between June 30, 2017, and the date of this Prospectus, there have been no material changes to BAWAG Group's net financial indebtedness as set out above.

7.2.1 Commitments and Contingent Liabilities

In the normal course of business, BAWAG Group regularly enters into irrevocable lending commitments, (customer credit lines) as well as contingent liabilities consisting of financial and performance guarantees on behalf of its customers. Under these contracts BAWAG Group is required to perform under an obligation agreement or to make payments to the beneficiary based on third party's failure to meet its obligations. For these instruments it is not known to BAWAG Group in detail if, when and to what extent claims will be made.

BAWAG Group considers all the above instruments in monitoring the credit exposure and may require collateral to mitigate inherent credit risk. If the credit risk monitoring provides sufficient perception about a loss from an expected claim, a provision is established and recognized on the balance sheet.

The following table shows BAWAG Group's irrevocable lending commitments and lending related contingent liabilities without considering collateral or provisions. It shows the maximum potential utilization of BAWAG Group in case all these liabilities entered into must be fulfilled. The table therefore does not show the expected future cash flows from these liabilities as many of them will expire without being drawn and arising claims will be honored by the customers or can be recovered from proceeds of arranged collateral.

	As of June 30, 2017	As of December 31, 2016
	(unaudited) (in € million)	
Contingent liabilities	**167**	**193**
Arising from guarantees	167	193
Unused customer credit lines	**4,443**	**4,567**
thereof terminable at any time and without notice	3,110	3,174
thereof not terminable at any time	1,333	1,393

Source: BAWAG Group's Financial Statements and Company information.

7.2.2 Working capital statement

The Company is of the opinion that BAWAG Group has sufficient working capital to meet its present requirements. Furthermore, the Company is of the opinion that BAWAG Group is able to meet its payment obligations that become due within a minimum of twelve months following the date of this Prospectus.

7.2.3 No significant change

Between June 30, 2017 and the date of this Prospectus, there have been no significant changes in BAWAG Group's financial or trading position. For information on management's view on full year trends, see "*26 Recent Developments and Outlook*".

8 DILUTION

As the Offering includes only Existing Shares, it will not lead to any dilution as would potentially be the case in connection with a capital increase.

The net asset value of BAWAG Group determined pursuant to IFRS amounted to € 3,349 million (€ 3,348 million excluding non-controlling interests) as of June 30, 2017. The net asset value is the difference between total assets, which amounted to € 39,716 million, and total current and non-current liabilities, which amounted to € 36,367 million, in each case as of June 30, 2017. This corresponds to € 33.48 (excluding non-controlling interests) per Existing Share.

9 SELECTED FINANCIAL AND BUSINESS INFORMATION

The following selected historical financial and business information of BAWAG Group should be read in conjunction with "3 Risk Factors", "10 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations" and "13 Business", the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2016, 2015 and 2014, as well as the Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017 (including comparative figures for the six-month period ended June 30, 2016) and the respective related notes included therein, which are contained in this Prospectus. See also "Presentation of Financial Information", "Measures not Defined by IFRS or Austrian Generally Accepted Accounting Principles", "Rounding Adjustments" and "Currency Presentation and Presentation of Other Figures" for further information on the financial statements.

The Audited Consolidated Financial Statements as of and for the financial years ended December 31, 2016, 2015 and 2014, were prepared in accordance with IFRS as adopted by the European Union. They were audited in accordance with Section 59a BWG and Austrian generally accepted standards for the audit of financial statements by KPMG and/or Deloitte who issued unqualified audit opinions thereon. The Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017 (including comparative figures for the six-month period ended June 30, 2016) were prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as adopted by the EU and have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410.

In this Prospectus, where financial information for BAWAG Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of the Company, as of and for the financial years ended December 31, 2016, 2015 and 2014. The label "unaudited" is used in this Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017 (including comparative figures for the six-month period ended June 30, 2016), or from BAWAG Group's accounting records or internal management reporting systems.

Due to a change in the Company's segments effective as from June 2016, financial information on the segment level for the financial years ended December 31, 2015, and 2014, included in this Prospectus has been adjusted to the new segment structure used in the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016. Financial information on the segment level for the financial year ended December 31, 2015, used in this Prospectus was taken from the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016, unless indicated otherwise, and financial information on the segment level for the financial year ended December 31, 2014 used in this Prospectus was taken from BAWAG Group's accounting records or internal management reporting systems, unless indicated otherwise, because the Audited Consolidated Financial Statements of the Company as of and for the financial years 2015 and 2014 do not reflect the new segment structure. Accordingly, no audited financial information on the segment level for the financial year 2014 is available.

*Some tables in this section also present measures neither defined under IFRS nor under the Commercial Code ("**non-GAAP measures**"). These non-GAAP measures are key figures used by BAWAG Group's management to monitor the performance of BAWAG Group. Non-GAAP measures not included in the Audited Consolidated Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP measures included in the Audited Consolidated Financial Statements are labeled "audited" in the relevant tables. Unless indicated otherwise, all financial data in the text and tables in this section of this Prospectus is presented in millions and billions of euros (€), and, if applicable, rounded to one decimal point or integers. Unless expressly noted otherwise, percentage amounts in the text and tables have also been rounded to one decimal point. Because of this rounding, the figures shown in the tables sometimes may not add up exactly to the respective totals given.*

9.1 Selected Financial Information from the Consolidated Income Statement

The following table shows selected consolidated income statement data of BAWAG Group for the six-month periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014 and financial information derived from such financial statements:

9.1.1 Profit or loss statement

	For the Six-Month Period ended June 30,		For the Financial Year ended December 31,		
	2017	**2016**	**2016**	**2015**	**2014**
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Interest income	548.9	528.6[1)]	1,024.4	1,051.3	1,089.9
Interest expense	(160.3)	(154.3)	(297.7)	(339.2)	(424.3)[2)]
Dividend income	6.8	2.0	3.3	10.2	9.8
Net interest income	**395.4**	**376.3**[1)]	**730.0**	**722.3**	**675.4**[2)3)]
Fee and commission income	142.8	140.8	276.3	292.3	302.0
Fee and commission expense	(36.7)	(37.8)	(83.4)	(106.4)	(104.2)
Net fee and commission income	**106.1**	**103.0**	**192.9**	**185.9**	**197.8**
Core revenues	**501.5**	**479.3**[1)]	**922.9**	**908.2**	**873.3**[2)]
Gains and losses on financial assets and liabilities	17.3	22.6[1)]	19.1	64.8	35.9[4)5)6)]
Other operating income and expenses	(24.6)	(29.8)	4.7	(36.4)	(10.3)
thereof regulatory charges[9)]	(27.1)	(33.1)	(84.9)	(35.2)	(24.6)
Administrative expenses	(199.6)	(197.2)	(405.4)	(432.9)	(451.7)[2)7)]
thereof regulatory charges[9)]	(1.03)	(0.93)	(2.3)	(1.6)	(4.6)
Depreciation and amortization on tangible and intangible non-current assets	(19.1)	(18.9)	(36.2)	(38.9)	(47.6)
Risk costs	(26.7)	(15.9)	(42.7)	(45.8)	(84.3)[7)]
Share of the profit or loss of associates accounted for using the equity method	1.8	4.3	8.0	(0.5)	0.9
Profit before tax	**250.6**	**244.4**	**470.4**	**418.5**	**316.2**[4)5)]
Income taxes	(47.1)	39.3	13.4	(24.1)	(0.5)
Profit after tax	**203.5**	**283.7**	**483.8**	**394.4**	**315.7**[4)5)]
Thereof attributable to non-controlling interests	0.0	0.2	0.2	0.0	0.7[4)5)8)]
Thereof attributable to owners of the parent	**203.5**	**283.5**	**483.6**	**394.4**	**315.0**[4)5)8)]

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.

2) Interest expense was restated as per the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2015. Interest expense for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.

3) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015 due to rounding differences.

4) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

5) Gains and losses on financial instruments for BAWAG Group for the financial year 2014 as shown in the above table exclude € 2.8 million in valuation results attributable to shareholders of non-controlling interests, which were included in that line item on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

6) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014 due to rounding differences.

7) Numbers were restated as per the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2015. Risk costs for BAWAG Group for the financial year 2014 as shown in the

above table include provisions and expenses for operational risk in the amount of € 7.2 million, which were included in operating expenses on the profit or loss statement for BAWAG Group and the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.

8) Profit after tax attributable to non-controlling interests was restated to provide better comparability with the numbers for the financial years 2016 and 2015. Profit after tax attributable to non-controlling interests for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

9) In accordance with IFRS, certain regulatory charges, such as bank levies, contributions to the deposit guarantee scheme and to the single resolution fund, are classified as other operating income and expenses while other regulatory charges, such as supervisory charges, are classified as administrative expenses.

Source: BAWAG Group's Financial Statements and Company information.

9.2 Selected Financial Information from the Consolidated Statement of Financial Position

The following tables show selected consolidated statement of financial position date of BAWAG Group as of June 30, 2017 and as of December 31, 2016, 2015 and 2014:

Total assets

	As of June 30,	**As of December 31,**		
	2017	**2016**	**2015**	**2014**
	(unaudited) (in € million)	**(audited, unless otherwise indicated) (in € million)**		
Cash reserves	887	1,020	809	684
Financial assets designated at fair value through profit or loss	191	202	303	450
Available-for-sale financial assets	3,043	3,209	2,745	3,859
Held-to-maturity investments	2,319	2,353	2,290	2,042
Financial assets held for trading	510	652	950	1,163
Loans and receivables	31,445	30,821	27,396	25,280
Customers	28,003	28,494	24,713	21,779
Securities	1,325	692	973	1,983
Credit institutions	2,117	1,635	1,710	1,518
Hedging derivatives	590	677	469	546
Property, plant and equipment	49	53	59	81[1)]
Investment properties	4	3	4	3[1)]
Goodwill	58	58	58	58
Brand name and customer relationships	171	174	168	174
Software and other intangible assets	141	128	103	102
Tax assets for current taxes	6	10	20	7
Tax assets for deferred taxes	163	203	190	193
Associates recognized at equity	42	45	43	44
Other assets	97	135	92	100
Assets in disposal groups	–	–	9	68
Total assets	**39,716**	**39,743**	**35,708**	**34,854**

1) Numbers are taken from the statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2015. Because investment properties are listed as a separate line item therein, the number for property, plant and equipment deviates from the number published in the Audited Consolidated Financial Statements as of and for the financial year 2014.

Source: BAWAG Group's Financial Statements.

Total liabilities and equity

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)	(audited, unless otherwise indicated) (in € million)		
Total liabilities				
Financial liabilities designated at fair value through profit or loss	847	1,115	1,269	1,675
Financial liabilities held for trading	405	617	1,071	1,174
Financial liabilities at amortized cost	33,816	32,962	28,514	27,985
Customers	25,359	25,998	21,692	21,127
Issued bonds, subordinated and supplementary capital	5,120	4,900	3,236	4,438
Credit institutions	3,337	2,064	3,586	2,420
Financial liabilities associated with transferred assets	–	300	621	–
Valuation adjustment on interest rate risk hedged portfolios	135	223	169	196
Hedging derivatives	140	260	106	160
Provisions	366	404	419	522
Tax liabilities for current taxes	21	19	6	1
Tax liabilities for deferred taxes	33	27	–	4
Other obligations	604	680	576	512
Obligations in disposal groups	–	–	0	6
Total equity	**3,349**	**3,136**	**2,957**	**2,619**
Equity attributable to the owners of the parent	3,348	3,134	2,956	2,619
Non-controlling interests	1	2	1	–
Total liabilities and equity	**39,716**	**39,743**	**35,708**	**34,854**

Source: BAWAG Group's Financial Statements.

9.3 Selected Financial Information from the Consolidated Statement of Cash Flows

The following table shows selected consolidated statement of cash flows data of BAWAG Group for the six-month periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014:

	For the six-month periods ended June 30,		For the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited) (in € million)		(audited) (in € million)		
Cash and cash equivalents at end of previous period	**1,020**	**809**	**809**	**684**	**481**
Net cash from operating activities	(264)	(34)	1,129	(283)	726
Net cash used in investing activities	145	(235)	(575)	853	(171)
Net cash from financing activities	(14)	(7)	(343)	(445)	(352)
Cash and cash equivalents at end of period	**887**	**533**	**1,020**	**809**	**684**

Source: BAWAG Group's Financial Statements.

9.4 Selected Other Financial Data

9.4.1 Selected Other Financial Data of BAWAG Group

The key performance indicators for BAWAG Group can be summarized as follows:

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	395.4	376.3[1]	730.0	722.3	675.4[2][3]
Net fee and commission income	106.1	103.0	192.9	185.9	197.8
Core revenues	501.5	479.3[1]	922.9	908.2	873.3[3]
Operating income	521.2	505.1	990.5	971.8	923.6[3]
Operating expenses[5]	(217.6)	(215.2)	(439.3)	(470.1)	(494.7)[3][4][6][7]
Total risk costs	(26.7)	(15.9)	(42.7)	(45.8)	(84.3)[7]
Profit before tax	250.6	244.4	470.4	418.5	316.2[4][8]
Net profit	203.5	283.5	483.6	394.4	315.0[4][9]
RoE[4]	12.6%	19.3%	15.9%	14.1%[10]	13.0%[9]
RoE (@12% CET1)[4]	14.7%[18]	20.9%[18]	16.9%[18]	14.4%[18]	12.0%
RoTE[4]	14.2%	21.8%	17.9%	16.1%	15.3%[9]
RoTE (@12% CET1)[4]	16.9%[18]	23.9%[18]	19.2%[18]	16.3%[18]	14.0%
Return on risk-weighted assets[4][17]	2.19%[18]	3.35%[18]	2.65%[18]	2.30%[18]	1.92%[9]
Return on total assets[17]	1.02%[11]	1.61%[11]	1.22%	1.10%	0.88%[4][9]
Net Interest Margin[4]	2.23%	2.38%[1][12]	2.31%	2.35%[12]	2.14%[12][13]
Cost-Income Ratio[4][5]	41.7%	42.6%	44.4%	48.4%	53.6%
Risk costs / loans and receivables[4]	0.17%	0.12%	0.15%	0.17%	0.32%
NPL ratio[4]	1.9%	2.0%[14]	1.7%[13]	1.9%[14]	2.0%[14]
CET1 ratio (Fully Loaded)	15.5%[18]	14.5%[18]	13.6%[18]	12.3%[15][18]	12.2%
Leverage ratio (Fully Loaded)[4]	7.0%	6.6%	6.5%	6.5%	5.7%
Liquidity coverage ratio (LCR)[16]	146%	141%	138%	137%	134%
Total capital ratio (Fully Loaded)[4]	18.1%[18]	17.3%[18]	16.2%[18]	15.0%[15][18]	15.9%

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.
2) Numbers differ from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015 due to rounding differences.
3) Net interest income for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement of BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.
4) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
5) Numbers for operating expenses do not include certain regulatory charges that are otherwise included in the line item other operating income and expenses reported on the level of BAWAG Group in the Audited Consolidated Financial Statements. Consequently, such regulatory charges are disregarded for the calculation of the cost-income-ratio. For more information, see "*10.5.5 Other Operating Income and Expenses*".
6) Operating expenses for BAWAG Group for the financial year 2014 as shown in the above table exclude € 4.6 million in supervisory charges that were shifted to regulatory charges but were included in operating expenses in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015.
7) Total risk costs were restated as per the Audited Consolidated Financial Statements as of and for the financial year 2015. Total risk costs for BAWAG Group for the financial year 2014 as shown in the above table include provisions and expenses for operational risk in the amount of € 7.2 million, which were included in operating expenses in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.
8) Profit before tax for BAWAG Group for the financial year 2014 as shown in the above table excludes valuation results attributable to shareholders of non-controlling interests in the amount of € 2.7 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

9) Numbers were restated to provide better comparability with the numbers for the financial years 2016 and 2015. Net profit of € 308.2 million for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.
10) Number differs from the management report in the consolidated annual report as of and for the financial year 2015 due to rounding differences.
11) Numbers are annualized to provide better comparability with the numbers for the financial years 2016, 2015 and 2014.
12) Number for the six-month period ended June 30, 2016, was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and numbers for the financial years 2015 and 2014 were restated as per the consolidated annual report as of and for the financial year 2016 to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
13) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
14) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
15) Numbers were restated as per the capital management in the Audited Consolidated Financial Statements as of and for the financial year 2016 and reflect the reclassification of holding customers.
16) Number is taken from PSH's accounting records or internal management reporting systems (unaudited) and is based on figures for PSH Group.
17) Return calculated on the basis of net profit.
18) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*9.4.2 Selected Other Financial Data by Segment*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	15.7%	14.7%	(1.0)
RoTE (@12% CET1)[4]	18.3%	16.9%	(1.4)
Return on risk-weighted assets[4]	2.39%	2.19%	(0.20)
CET1 ratio (Fully Loaded)	16.5%	15.5%	(1.0)
Total capital ratio (Fully Loaded)[4]	19.3%	18.1%	(1.2)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	21.7%	20.9%	(0.8)
RoTE (@12% CET1)[4]	24.9%	23.9%	(1.0)
Return on risk-weighted assets[4]	3.52%	3.35%	(0.17)
CET1 ratio (Fully Loaded)	15.1%	14.5%	(0.6)
Total capital ratio (Fully Loaded)[4]	18.1%	17.3%	(0.8)

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	17.9%	16.9%	(1.0)
RoTE (@12% CET1)[4]	20.5%	19.2%	(1.3)
Return on risk-weighted assets[4]	2.87%	2.65%	(0.22)
CET1 ratio (Fully Loaded)	15.1%	13.6%	(1.5)
Total capital ratio (Fully Loaded)[4]	18.0%	16.2%	(1.8)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	14.7%	14.4%	(0.3)
RoTE (@12% CET1)[4]	16.7%	16.3%	(0.4)
Return on risk-weighted assets[4]	2.37%	2.30%	(0.07)
CET1 ratio (Fully Loaded)	12.9%	12.3%	(0.6)
Total capital ratio (Fully Loaded)[4]	15.8%	15.0%	(0.8)

Source: BAWAG Group's Financial Statements and Company information.

9.4.2 Selected Other Financial Data by Segment

The following tables show certain key financial information for the segments of BAWAG Group in the periods under review:

BAWAG P.S.K. Retail

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	197.5	169.4	352.3	331.4	361.3
Net fee and commission income	82.3	74.6	141.1	135.9	153.1
Core revenues	279.8	244.0	493.4	467.3	514.4
Operating income	281.7	245.8	495.7	474.9	516.8
Operating expenses	(134.4)	(136.0)	(273.5)	(303.2)	(345.5)
Total risk costs	(16.5)	(17.3)	(40.8)	(33.9)	(40.1)
Profit before tax (= net profit)	116.5	80.1	169.1	131.5	131.2
RoE[1]	23.7%[8]	19.3%[8]	19.2%[8]	16.5%[8]	19.0%
RoE (@12% CET)[1]	27.7%[8]	20.9%[8]	20.4%[8]	16.8%[8]	17.1%
Return on risk-weighted assets[1][5]	5.23%	4.21%	4.09%	3.37%[2]	3.35%
Net Interest Margin[1]	3.38%	3.67%[3]	3.72%	3.56%	3.91%
Cost-Income Ratio[1]	47.7%	55.3%	55.2%	63.8%	66.8%
Risk costs / loans and receivables[1]	0.28%	0.38%	0.39%	0.37%	0.44%
NPL ratio[1]	2.1%	2.4%	2.0%[4]	2.4%[4]	2.9%
Assets	11,632	9,256	11,659	9,178	9,201
Risk-weighted assets	4,471	3,785	4,432	3,827	3,981
Customer deposits[1][6]	17,932	15,597	18,058	15,663	15,881
Own issues[1][7]	2,924	2,561	2,990	2,122	2,435

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
3) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
4) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
5) Return calculated on the basis of net profit.
6) Customer deposits are deposits of retail, business and institutional customers.
7) Debt instruments issued by BAWAG Group (see "*10.2.9 Funding*").
8) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	22.7%	23.7%	1.0
RoE (@12% CET)[1]	28.4%	27.7%	0.7

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	18.8%	19.3%	0.5
RoE (@12% CET)[1]	21.2%	20.9%	0.3

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	18.4%	19.2%	0.8
RoE (@12% CET)[1]	20.9%	20.4%	0.5

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	16.3%	16.5%	0.2
RoE (@12% CET)[1]	16.9%	16.8%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

easygroup

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	78.3	60.2[2]	115.8	57.1	31.0
Net fee and commission income	5.4	4.6	10.1	8.1	8.3
Core revenues	83.7	64.8[2]	125.9	65.2	39.3
Operating income	83.2	64.9	124.5	65.3	42.3
Operating expenses	(15.8)	(15.7)	(30.6)	(23.4)	(23.2)
Total risk costs	5.7	(2.1)	(4.8)	0.1	(1.4)
Profit before tax (= net profit)	70.7	44.6	86.7	42.0	17.7
RoE[1]	25.7%[8]	22.1%[8]	17.8%[8]	17.6%[8]	28.1%
RoE (@12% CET)[1]	29.9%[8]	23.9%[8]	19.0%[8]	17.8%[8]	25.5%
Return on risk-weighted assets[1][6]	3.70%[8]	3.30%[8]	2.45%[8]	2.61%[3][8]	5.23%
Net Interest Margin[1]	3.67%	3.54%[2][4]	3.46%	7.32%	9.10%
Cost-Income Ratio[1]	19.0%	24.2%	24.6%	35.9%	54.7%
Risk costs / loans and receivables[1][7]	(0.27)%	0.12%	0.12%	0.00%	0.40%
NPL ratio[1]	2.9%	3.0%[5]	2.0%[5]	1.9%[5]	0.5%
Assets	4,102	3,247	4,458	3,644	378
Risk-weighted assets	3,399[8]	2,594[8]	4,249[8]	2,817[8]	405
Customer deposits[1]	3,761	3,673	3,893	3,204	2,864
Own issues[1]	496	0	585	0	0

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.
3) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
4) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
5) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
6) Return calculated on the basis of net profit.
7) Ratio of provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) to the average of loans and receivables (including provisions).

8) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	34.7%	25.7%	(9.0) pp
RoE (@12% CET)[1]	43.2%	29.9%	(13.3) pp
Return on risk-weighted assets[1]	6.12%	3.70%	(2.42) pp
Risk-weighted assets	2,278	3,399	1,121

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	27.7%	22.1%	(5.6) pp
RoE (@12% CET)[1]	31.2%	23.9%	(7.3) pp
Return on risk-weighted assets[1]	4.76%	3.30%	(1.46) pp
Risk-weighted assets	1,849	2,594	745

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	24.1%	17.8%	(6.3) pp
RoE (@12% CET)[1]	27.4%	19.0%	(8.4) pp
Return on risk-weighted assets[1]	4.09%	2.45%	(1.64) pp
Risk-weighted assets	2,346	4,249	1,903

	As of and for the financial year ended December 31, 2015		
	Originally reported number	**Adjusted number**	**Adjustment**
		(unaudited)	
	(in € million except for percentages or as otherwise indicated)		
RoE[1]	21.5%	17.6%	(3.9) pp
RoE (@12% CET)[1]	22.6%	17.8%	(4.8) pp
Return on risk-weighted assets[1]	3.65%	2.61%	(1.04) pp
Risk-weighted assets	1,897	2,817	920

Source: BAWAG Group's Financial Statements and Company information.

DACH Corporates & Public Sector

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	31.9	40.3	79.5	99.4	112.5
Net fee and commission income	19.8	20.1	39.7	39.2	41.3
Core revenues	51.7	60.4	119.2	138.6	153.9
Operating income	53.4	60.3	120.2	143.7	155.9
Operating expenses	(20.9)	(25.7)	(53.6)	(56.8)	(59.3)
Total risk costs	5.5	1.4	4.4	(6.4)	(34.8)
Profit before tax (= net profit)	38.0	36.0	71.0	80.5	61.8
RoE[1]	14.7%[5]	13.9%[5]	13.8%[5]	15.3%[5]	12.7%
RoE (@12% CET)[1]	17.2%[5]	15.1%[5]	14.6%[5]	15.5%[5]	11.4%
Return on risk-weighted assets[1)4)]	2.73%	2.41%	2.37%	2.27%	1.52%
Net Interest Margin[1]	0.81%	1.05%[2]	1.05%	1.18%	1.30%
Cost-Income Ratio[1]	39.1%	42.6%	44.6%	39.5%	38.0%
Risk costs / loans and receivables[1]	(0.14)%	(0.04%)	(0.06)%	0.08%	0.37%
NPL ratio[1]	0.9%	1.3%[3]	0.9%[3]	1.3%[3]	1.6%
Assets	7,958	7,437	7,812	7,527	8,933
Risk-weighted assets	2,649	2,893	2,916	3,087	4,014
Customer deposits (incl. other refinancing)[1]	6,115	3,759	5,284	5,568	5,393
Own issues[1]	697	200	202	203	213

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
4) Return calculated on the basis of net profit.
5) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	14.0%	14.7%	0.7
RoE (@12% CET)[1]	17.4%	17.2%	(0.2)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.5%	13.9%	0.4
RoE (@12% CET)[1]	15.1%	15.1%	0

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.1%	13.8%	0.7
RoE (@12% CET)[1]	14.8%	14.6%	(0.2)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	15.0%	15.3%	0.3
RoE (@12% CET)[1]	15.6%	15.5%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

International Business

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	65.4	67.8	134.0	142.2	100.2
Net fee and commission income	0.0	0.0	(0.1)	0.0	1.1
Core revenues	65.4	67.8	133.9	142.2	101.4
Operating income	64.9	66.1	131.1	136.2	102.8
Operating expenses	(15.0)	(13.3)	(29.9)	(25.7)	(21.7)
Total risk costs	(15.5)	3.0	1.2	0.2	0.3
Profit before tax (= net profit)	34.4	55.8	102.4	110.7	81.4
RoE[1]	12.8%[4]	20.3%[4]	18.8%[4]	19.9%[4]	21.0%
RoE (@12% CET)[1]	14.9%[4]	21.9%[4]	19.9%[4]	20.2%[4]	19.5%
Return on risk-weighted assets[1][3]	1.66%	2.64%	2.34%	2.53%	2.14%
Net Interest Margin[1]	2.45%	2.52%[2]	2.55%	2.64%	2.07%
Cost-Income Ratio[1]	23.1%	20.1%	22.8%	18.9%	21.1%
Risk costs / loans and receivables[1]	0.60%	(0.12)%	(0.02)%	0.00%	(0.01)%
NPL ratio[1]	0.9%	0.0%	0.0%	0.0%	0.1%
Assets	5,130	5,040	5,634	5,748	5,009
Risk-weighted assets	4,099	3,890	4,169	4,565	4,185

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Return calculated on the basis of net profit.
4) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	11.9%	12.8%	0.9
RoE (@12% CET)[1]	14.9%	14.9%	0

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	19.5%	20.3%	0.8
RoE (@12% CET)[1]	21.8%	21.9%	0.1

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1)]	17.6%	18.8%	1.2
RoE (@12% CET)[1)]	19.8%	19.9%	0.1

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1)]	19.4%	19.9%	0.5
RoE (@12% CET)[1)]	20.1%	20.2%	0.1

Source: BAWAG Group's Financial Statements and Company information.

Treasury Services & Markets

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1)]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	24.9	28.2	54.3	58.1	54.8
Net fee and commission income	0.0	0.0	0.0	0.0	0.0
Core revenues	24.9	28.2	54.3	58.1	54.8
Operating income	34.7	28.9	66.2	71.9	79.7
Operating expenses	(8.0)	(8.0)	(16.3)	(19.0)	(21.6)
Total risk costs	0.0	0.0	(0.0)	0.0	0.0
Profit before tax (= net profit)	26.7	20.9	49.9	52.9	58.1
RoE[1)]	14.2%[4)]	12.2%[4)]	14.5%[4)]	14.5%[4)]	16.1%
RoE (@12% CET)[1)]	16.6%[4)]	13.2%[4)]	15.4%[4)]	14.7%[4)]	14.5%
Return on risk-weighted assets[1)3)]	2.59%	2.30%	2.62%	2.57%	2.81%
Net Interest Margin[1)]	0.84%	0.98%[2)]	0.96%	0.93%	1.01%
Cost-Income Ratio[1)]	23.1%	27.7%	24.6%	26.4%	27.1%
Assets and liquidity reserve[1)]	7,799	6,302	6,691	6,293	7,577
Risk-weighted assets	2,100	1,842	2,031	1,785	2,325
Own issues and other liabilities[1)]	2,404	2,860	2,847	3,367	3,725

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Return calculated on the basis of net profit.
4) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1)]	13.4%	14.2%	0.8
RoE (@12% CET)[1)]	16.7%	16.6%	(0.1)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	11.9%	12.2%	0.3
RoE (@12% CET)[1]	13.3%	13.2%	(0.1)

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.7%	14.5%	0.8
RoE (@12% CET)[1]	15.5%	15.4%	(0.1)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	14.3%	14.5%	0.2
RoE (@12% CET)[1]	14.8%	14.7%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

Corporate Center

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Net interest income	(2.6)	10.4	(5.9)	34.1	15.5
Net fee and commission income	(1.4)	3.7	2.1	2.7	(6.1)
Core revenues	(4.0)	14.1	(3.8)	36.8	9.4
Operating income	3.3	39.1	52.8	79.8	26.0
Operating expenses	(23.5)	(16.5)	(35.4)	(42.1)	(23.5)
Total risk costs	(5.9)	(0.8)[2]	(2.7)	(5.8)	(8.3)
Profit before tax	(35.7)	7.0	(8.7)	0.9	(34.1)
Net profit	(82.8)	46.1	4.5	(23.2)	(35.3)
Other assets	3,095	3,447	3,489	3,317	3,757
Risk-weighted assets	1,320	1,404	1,246	1,373	1,902
Equity[1]	3,348	3,224	3,134	2,956	2,619
Other liabilities[1]	2,039	2,854	2,748	2,625	1,722

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number differs from the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016, due to rounding differences.

Source: BAWAG Group's Financial Statements and Company information.

10 MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion and analysis of BAWAG Group's net assets, financial position and results of operations should be read in conjunction with "9 Selected Financial and Business Information", "3 Risk Factors" and "13 Business", the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2016, 2015, and 2014, as well as the Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017, (including comparative figures for the six-month period ended June 30, 2016) and the respective related notes included therein, which are contained in this Prospectus. See also "Presentation of Financial Information", "Measures not Defined by IFRS or Austrian Generally Accepted Accounting Principles", "Rounding Adjustments" and "Currency Presentation and Presentation of Other Figures" for further information on the financial statements.

The Audited Consolidated Financial Statements as of and for the financial years ended December 31, 2016, 2015, and 2014, were prepared in accordance with IFRS as adopted by the EU. They were audited in accordance with Section 59a BWG and Austrian generally accepted standards for the audit of financial statements by KPMG and/or Deloitte who issued unqualified audit opinions thereon. The Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, (including comparative figures for the six-month period ended June 30, 2016) were prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as adopted by the EU and have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410.

In this Prospectus, where financial information for BAWAG Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2016, 2015, and 2014. The label "unaudited" is used in this Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017, (including comparative figures for the six-month period ended June 30, 2016), or from BAWAG Group's accounting records or internal management reporting systems. The Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017, (including comparative figures for the six-month period ended June 30, 2016) have not been audited but have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410.

Due to a change in BAWAG Group's segments effective as from June 30, 2016, financial information on the segment level for the financial years ended December 31, 2015, and 2014, included in this Prospectus has been adjusted to the new segment structure used in the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016. Financial information on the segment level for the financial year ended December 31, 2015, used in this Prospectus was taken from the Audited Consolidated Financial Statements of the Company as of and for the financial year ended December 31, 2016, unless indicated otherwise. Financial information on the segment level for the financial year ended December 31, 2014, used in this Prospectus was taken from BAWAG Group's accounting records or internal management reporting systems, unless indicated otherwise, because the Audited Consolidated Financial Statements of the Company as of and for the financial years 2015 and 2014 do not reflect the new segment structure. Accordingly, no audited financial information on the segment level for the financial year 2014 is available.

Some tables in this section also present non-GAAP measures (neither defined under IFRS nor under the Commercial Code). These non-GAAP measures are key figures used by BAWAG Group's management to monitor the performance of BAWAG Group. non-GAAP measures not included in the Audited Consolidated Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP measures included in the Audited Consolidated Financial Statements are labeled "audited" in the relevant tables. Unless indicated otherwise, all financial data in the text and tables in this section of this Prospectus is presented in millions and billions of euros (€), and, if applicable, rounded to one decimal point or whole numbers. Unless expressly noted otherwise, percentage amounts in the text and tables have also been rounded to one decimal point. Because of this rounding, the figures shown in the tables may sometimes not add up exactly to the respective totals given.

10.1 Segmentation

10.1.1 Overview of Segments

BAWAG Group manages its business through six reportable segments: BAWAG P.S.K. Retail, easygroup, DACH Corporates & Public Sector, International Business, Treasury Services & Markets and Corporate Center. The segments are defined based on the internal structure for reporting to the Management Board as the main operating decision body of BAWAG Group.

10.1.1.1 BAWAG P.S.K. Retail

The BAWAG P.S.K. Retail segment includes savings, payment, card and lending activities, investment and insurance services for Austrian private customers, small business lending and social housing activities as well as building society savings and loans. As of June 30, 2017, this segment served 1.8 million private and small business customers through a centralized branch network as well as online and mobile sales channels supported by a customer care center. The segment focuses on funding through its deposit base, while expanding its lending business and broadening the range of its financial product offerings with strategic partnerships. Growth of the BAWAG P.S.K. Retail segment is focused on its core market in Austria. See also "*13.5 BAWAG P.S.K. Retail*".

10.1.1.2 easygroup

The easygroup segment includes (i) easybank, a digital bank, which offers customers financial products ranging from savings and current accounts, consumer loans, housing loans, credit cards, payment solutions and investment products for private and small business customers, (ii) easyleasing, a subsidiary of easybank focused on the distribution of leasing products including vehicle leases, floor plan financing for vehicle dealerships and various other leases of moveable assets for private and business customers, (iii) international retail, consisting of a performing loan portfolio secured by residential mortgages in France ("**French Mortgage Loan Portfolio**") (see "*10.2.3 Acquisition of the French Mortgage Loan Portfolio*") and a performing loan portfolio secured by residential mortgages in the U.K. ("**U.K. Mortgage Loan Portfolio**", and, together with the French Mortgage Loan Portfolio, "**French and U.K. Mortgage Loan Portfolios**") (see "*10.2.6 Acquisition of the U.K. Mortgage Loan Portfolio*"), and (iv) easypay which centralizes BAWAG Group's card issuing business comprising easybank, BAWAG P.S.K. Retail and PayLife credit and prepaid cards. As of June 30, 2017, the easygroup segment comprised approximately 426,000 private and small business customers and borrowers. As a direct bank without physical branches, easygroup focuses on developing partnerships with other companies and organizations to reach new customers. Partnerships such as those with the Austrian automobile, motorbike and touring club (*Österreichische Automobil-, Motorrad- und Touring Club* – "**ÖAMTC**"), Shell and Energie Steiermark provide easygroup with indirect access to approximately half of the Austrian population. The aim is to grow easygroup's customer base and market share in Austria, while also expanding into the wider DACH region, starting with Germany and potentially into the U.K. See also "*13.6 easygroup*".

10.1.1.3 DACH Corporates & Public Sector

The DACH Corporates & Public Sector segment includes the corporate and public sector lending business and other fee-driven financial services, with a focus on term loans, payment service products and security sales. The segment mainly services Austrian customers; it also supports clients in their cross-border activities. Select client relationships in neighboring countries (primarily Germany) are included as well. As of June 30, 2017, the DACH Corporates & Public Sector segment served approximately 2,000 commercial clients with a turnover exceeding € 50 million and select real estate clients as well as approximately further 2,000 public sector client groups, including the Austrian government, municipalities, public sector entities and social and pension insurance companies and also provided payment services to institutional and major corporate clients in which public sector entities hold a stake. As of and for the six-month period ended June 30, 2017, 56% of the net fee and commission income of the DACH Corporates & Public Sector segment was derived from its public sector client groups and 44% from its corporate client groups and 85% of the total assets of the DACH Corporates & Public Sector segment were attributable to Austrian clients and 13% to German clients. See also "*13.7.1 DACH Corporates & Public Sector*".

10.1.1.4 International Business

The International Business segment includes the international corporate lending and international real estate financing business outside the DACH region with a focus on developed countries within Western Europe as well as the United States. The international corporate lending business focuses primarily on lending to free cash flow generating companies with defensive business profiles and, what BAWAG Group believes to be, appropriate capital structures and strong market positions. Loan tranches to corporate customers typically range from € 30 million to € 100 million per loan tranche. The international real estate financing business focuses on senior loan positions in cash flow generating properties and is primarily sponsor-driven, focusing on international private equity investments. The London-based origination team cooperates with various major international banks to participate in syndicated deals and, in the international real estate business, the majority of transactions are sourced directly with end clients, e.g., private equity sponsors. See also "*13.7.2 International Business*".

10.1.1.5 Treasury Services & Markets

The Treasury Services & Markets segment acts as a service center for BAWAG Group entities, customers and partners through market execution and includes any treasury activities associated with providing trading and investment services such as certain asset-liability management transactions (i.e., managing interest rate risk, collateral, capital and FX), funding (secured and unsecured) and the investment results of BAWAG Group's portfolio of financial securities as well as liquidity management. In particular, it manages BAWAG Group's bond portfolio and the liquidity reserve. The primary responsibility of Treasury Services & Markets is managing BAWAG Group's liquidity. The Treasury Services & Markets segment pursues the strategy of balancing the investment portfolio between long-term investments and maintaining the available-for-sale portfolio to preserve flexibility as well as adhering to the liquidity coverage ratio ("**LCR**") required under statutory law. Money-market transactions entered into with other banks for purposes of liquidity management that were allocated to the Corporate Center segment prior to June 2016 are now allocated to Treasury Services & Markets. See also "*13.8 Treasury Services & Markets*".

10.1.1.6 Corporate Center

The Corporate Center segment provides central functions for the entire BAWAG Group, including providing legal services and managing risks and group asset-liability management, and does not include any customer business or interest-earning assets and liabilities. It includes unallocated items related to support functions for the entire BAWAG Group, accounting positions (e.g., market values of derivatives), the Company's equity, real estate and fixed assets, restructuring and other one-off items and select results related to subsidiary and participation holdings as well as regulatory charges (except for DGS contributions, which are individually attributed to the respective segment to which the related deposit is allocated) and corporate taxes. See also "*13.9 Corporate Center*".

10.1.2 Changes in Segmentation

10.1.2.1 Changes in Segmentation with Effect from June 2016

With effect from June 2016, certain changes in the business segment reporting were made to increase transparency and better reflect the developments and progress in the individual business segments going forward. A summary of the major changes and rationale is provided below:

Old reporting segments	New reporting segments	Rationale for changes in segments
Retail Banking and Small Business	BAWAG P.S.K. Retail	Segment split to more clearly show • BAWAG P.S.K. origination capacities in retail and small business banking, adding own issues covered with retail assets and BAWAG P.S.K. Wohnbaubank Aktiengesellschaft bonds from the Corporate Center to combine directly connected business activities in one business segment
	easygroup	• direct bank activities of easybank with its leasing subsidiaries including international retail lending activities
Corporate Lending and Investments	DACH Corporates & Public Sector	Segment split to more clearly show • direct customer business through the business solution partners in the DACH region, adding own issues covered with corporate or public assets as well as direct refinancings from the Corporate Center to combine directly connected business activities in one business segment
	International Business	• international origination business from the London office predominantly in Western markets

Old reporting segments	New reporting segments	Rationale for changes in segments
Treasury Services & Markets	Treasury Services & Markets	Added the liquidity portfolio as well as funding activities (unsecured issues, repos and short-term liquidity actions) from the Corporate Center
Corporate Center	Corporate Center	Split out assets/liabilities as described above to clearly focus on non-business-related positions in the Corporate Center

Source: Company information.

10.1.2.2 Presentation of Financial Information on the Segment Level

Due to a change in the segmentation with effect as from June 2016, financial information at the segment level for the financial years 2015 and 2014 included in this Prospectus has been adjusted to the new segment structure in the Audited Consolidated Financial Statements of the Company as of and for the financial year 2016. Financial information at the segment level for the financial year 2015 used in this Prospectus was, therefore, taken from the Audited Consolidated Financial Statements of the Company as of and for the financial year 2016, unless indicated otherwise. Financial information at the segment level for the financial year 2014 used in this Prospectus was taken from BAWAG Group's accounting records or internal management reporting systems, unless indicated otherwise and such segment-level information is unaudited because the Audited Consolidated Financial Statements of the Company as of and for the financial years 2015 and 2014 do not reflect the new segment structure.

For financial information at a segment level prior to re-segmentation, refer to the Audited Consolidated Financial Statements for the financial years 2015 and 2014, which are contained in "*29 Financial Information*" in this Prospectus.

10.2 Key Events in the Periods under Review

10.2.1 Acquisition of PayLife

In October 2017, BAWAG Group completed the acquisition of PayLife, the card issuing business of SIX Payment Services Austria ("**PayLife**"). BAWAG Group financed this acquisition using own funds. Combined with BAWAG Group's existing credit card business, the acquisition of PayLife's one million prepaid cards and 650,000 credit cards makes BAWAG Group, in its own assessment, one of the largest card issuers in Austria by number of prepaid and credit cards issued and enlarges its customer base by creating further cross-selling opportunities to both consumers and businesses.

10.2.2 Acquisition of start:bausparkasse and IMMO-BANK in the Financial Year 2016

In December 2016, the acquisitions of start:bausparkasse AG ("**start:bausparkasse**") and IMMO-BANK Aktiengesellschaft ("**IMMO-BANK**") were completed. Both transactions play a pivotal role for BAWAG Group's domestic growth plans. The acquisition of start:bausparkasse and its market share (assets in the amount of € 1.6 billion and deposits in the amount of € 1.8 billion as of June 30, 2017) provides BAWAG P.S.K. Retail with a presence in the building society savings and loans sector. This sector has a long tradition in Austria and is very popular because the deposits are publicly subsidized with a premium on a yearly saving amount of up to € 1,200. The subsidy is determined annually and is set at 1.5% for the year 2017. The acquisition of IMMO-BANK expands the relationship of BAWAG P.S.K. Retail with social housing associations and small and medium-sized real estate companies. Loans to social housing associations are of low risk and also offer opportunities for cross-selling payment services and for further loan originations to tenants who purchase their apartments. The real estate business of IMMO-Bank fits BAWAG P.S.K. Retail's strategy of focusing on mid-size real estate financings and provides an opportunity to retain higher originations than IMMO-Bank did in the past as IMMO-BANK syndicated much of its loan originations to other banks.

Overall, the acquisitions of start:bausparkasse and IMMO-BANK contributed 500,000 retail customers to BAWAG Group.

The total consideration amounted to € 192.6 million paid in cash. Of that amount (i) € 66.2 million was paid in December 2016 to start:bausparkasse (which BAWAG Group acquired concurrently as described below) for its 74.26% share in IMMO-BANK and (ii) € 110.0 million was paid in December 2016 to Verwaltungsgenossenschaft der start:gruppe e.Gen. for its 25.74% share in IMMO-BANK and its 100% share in start:bausparkasse. Following the closing and the final determination of the purchase price,

€ 16.4 million of additional cash consideration was paid to Verwaltungsgenossenschaft der start:gruppe e.Gen. in July 2017, of which € 14.1 million was already reflected in the financial statements for the financial year 2016. BAWAG Group incurred acquisition-related costs of € 0.4 million in legal fees, audit fees and due diligence costs. These costs have been included in the line item other administrative expenses in the financial year 2016.

In accordance with IFRS 3, the consolidation result of approximately € 126 million (the excess of € 316 million of total identifiable net assets acquired over the consideration paid or provisioned for at closing in the amount of € 190.3 million) was recognized in the profit or loss statement in the line item other operating income and expenses. This gain reflects the net amount of positive and negative temporary net present value effects, as all acquired assets and liabilities were recognized at their fair value (net present value) at the time of the acquisition. This gain will be offset by allocations to net interest income and depreciation and amortization on tangible and intangible non-current assets over time. The acquired companies recognized restructuring expenses (including restructuring reserves) in the amount of € 36 million in December 2016.

10.2.3 Acquisition of the French Mortgage Loan Portfolio

In the fourth quarter 2016, BAWAG P.S.K. acquired, for allocation to the easygroup segment, the French Mortgage Loan Portfolio with € 1.4 billion in assets as of the date of the acquisition. As of December 31, 2016, the French Mortgage Loan Portfolio consisted of approximately 21,000 borrowers, had a loan-to-value ("**LTV**") ratio of 62% and the loans had a weighted average size of € 57,000 and a weighted average yield of 2.80%. As of December 31, 2016, 72% of the aggregate loan amount of the French Mortgage Loan Portfolio was residential and 28% was buy to let, with houses and apartments each making up approximately half the French Mortgage Loan Portfolio. All economic risks and benefits are borne by BAWAG P.S.K. (and allocated to the easygroup segment), but the French Mortgage Loan Portfolio is serviced by a third-party servicer and easygroup has no direct access to the borrowers.

The acquisition reflects BAWAG Group's strategy to invest in developed countries in Western Europe and North America. BAWAG Group believes the French Mortgage Loan Portfolio provides an opportunity to learn more about a potential target market for organic business growth. The French Mortgage Loan Portfolio was allocated to easygroup due to easygroup's focus on expanding its international retail business. BAWAG Group anticipates that any potential expansion in France would occur without developing a branch network using easybank's online and mobile channels. Beyond the strategic nature of expanding internationally, the acquisition of the French Mortgage Loan Portfolio also helps to balance easygroup's large deposit base relative to its outstanding loans.

In the first quarter of 2017, BAWAG Group was subject to an on-site inspection requested by the ECB which related, among other things, to the French Mortgage Loan Portfolio, see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*".

10.2.4 One-time Austrian Bank Levy

Following changes to the Austrian bank levy regulation, BAWAG Group opted to pay a one-time Austrian bank levy (*Bankenstabilitätsabgabe*) in the amount of € 41.0 million in the financial year 2016 rather than spreading the payment out over five years. This one-time payment was in addition to the regular bank levy of € 21.8 million in the financial year 2016. As a result of the one-time payment, a reduced regular bank levy of € 4.5 million is expected for the financial year 2017.

10.2.5 Sale of BAWAG Malta Bank Limited

In January 2016, BAWAG Group completed the sale of all of its shares in BAWAG Malta Bank Limited, the last non-Austrian operating subsidiary, for total consideration of € 90.8 million.

10.2.6 Acquisition of the U.K. Mortgage Loan Portfolio

In December 2015, BAWAG P.S.K. acquired, for allocation to the easygroup segment, the U.K. Mortgage Loan Portfolio with € 2.5 billion in assets (denominated in £) as of the date of the acquisition. As of December 31, 2016, the U.K. Mortgage Loan Portfolio consisted of approximately 20,000 borrowers, had an LTV ratio of 64% and the loans had an average yield of 4.33% and an average weighted size of € 47,000. As of December 31, 2016, more than 95% of the aggregate loan amount of the U.K. Mortgage Loan Portfolio consisted of secured loans, of which 53% were non-amortizing loans. All economic risks and benefits are borne by BAWAG P.S.K. (and allocated to the easygroup segment), but the U.K. Mortgage Loan Portfolio is serviced by a third-party servicer and easygroup has no direct access to the borrowers.

As with the acquisition of the French Mortgage Loan Portfolio, the acquisition of the U.K. Mortgage Loan Portfolio reflects BAWAG Group's strategy to invest in developed countries in Western Europe and North America. BAWAG Group believes the U.K. Mortgage Loan Portfolio provides an opportunity to learn more about a potential target market for organic business growth. The U.K. Mortgage Loan Portfolio was allocated to easygroup due to easygroup's focus on expanding its international retail business. BAWAG Group anticipates that any potential expansion in the U.K. would occur without developing a branch network using easybank's online and mobile channels. Beyond the strategic nature of expanding internationally, the acquisition of the U.K. Mortgage Loan Portfolio also helps to balance easygroup's large deposit base relative to its outstanding loans.

In the first quarter of 2017, BAWAG Group was subject to an on-site inspection requested by the ECB which related, among other things, to the U.K. Mortgage Loan Portfolio, see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*".

10.2.7 Acquisition of VB Leasing Finanzierungsgesellschaft m.b.H.

In October 2015, BAWAG Group acquired 100% of the shares in VB Leasing Finanzierungsgesellschaft m.b.H., together with its two subsidiaries VB Technologie Finanzierungs GmbH (stake of 100%) and ACP-IT Finanzierungs GmbH (stake of 75%), and, in December 2015, BAWAG Group further acquired 100% of the shares in Leasing-west GmbH (together, "**VB Leasing**").

For the periods from the respective acquisition dates until December 31, 2015, the acquired companies contributed core revenues of € 6.7 million and profit of € 2.2 million.

The capitalized portion of the purchase price (excluding dividends distributed to the seller) amounted to € 33 million in cash, of which € 30 million was paid at the date of the acquisition and € 3 million was paid in January 2016. BAWAG Group incurred acquisition-related costs of € 0.5 million in legal fees and due diligence costs. These costs have been included in the line item other operating expenses in the financial year 2015.

The 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests based on the proportionate interest in the recognized amounts of assets and liabilities, which was € 1.4 million as of December 31, 2015.

As part of the transaction, BAWAG Group acquired leasing receivables in the amount of € 681.0 million (representing the present value of estimated future cash flows) and loans and receivables from credit institutions in the amount of € 63.0 million. The consolidation result amounted to € 9.5 million, which was recognized in the profit or loss statement for the financial year 2015 in the line item other operating income and expenses. Given that the buyer has to bear the costs of centralizing VB Leasing, which was previously managed on a decentralized basis, including necessary administrative simplifications, the leasing companies of BAWAG Group also recognized restructuring expenses (including restructuring reserves) in the amount of € 9.4 million in the months between the acquisition dates and December 31, 2015.

10.2.8 Sale of BAWAG P.S.K. INVEST GmbH

In February 2015, BAWAG Group completed the sale of all its shares in BAWAG P.S.K. INVEST GmbH, BAWAG Group's captive asset manager, to Amundi S.A. for total consideration of € 105.0 million.

10.2.9 Funding

In September 2015, BAWAG P.S.K. issued € 500 million mortgage covered bonds, rated Aaa by Moody's Deutschland GmbH ("**Moody's**"), with a coupon of 0.375% p.a. In February 2016, BAWAG P.S.K. issued an additional € 500 million mortgage covered bond, also rated Aaa by Moody's with a coupon of 0.375% p.a.

In October 2016, BAWAG P.S.K. placed a senior unsecured CHF 175 million bond, at that time rated A3 by Moody's, with a coupon of 0.01% p.a., as well as a senior unsecured CHF 100 million bond, at that time rated A3 by Moody's, with a coupon of 3-month CHF LIBOR plus 50 basis points p.a. and a negative yield of 0.25% which was, at the time of placement, the lowest ever recorded yield of a newly issued financial bond in CHF on the Swiss financial market.

In November 2016, BAWAG Group (via Feldspar 2016-1 PLC) placed residential mortgage backed securities ("**RMBS**") in the aggregate amount of £ 500 million, backed by performing retail mortgages from the U.K. Mortgage Loan Portfolio, with a coupon of 3-month £ LIBOR plus 70 basis points p.a. and a weighted-average life (WAL) of 3.04 years.

In January 2017, BAWAG P.S.K. issued an Austrian public sector covered bond in the notional amount of € 500 million. The covered bond was rated Aaa by Moody's at the time of issuance, had a ten year tenor and a coupon of 0.75% p.a.

Furthermore, BAWAG P.S.K. participated in the final call for the second series of targeted longer-term refinancing operations (TLTRO II) of the ECB with a volume of € 2.0 billion to expediently secure funds at an attractive rate for future refinancing needs.

10.3 Principal Factors Affecting BAWAG Group's Results of Operations

BAWAG Group's consolidated results of operations are largely driven by the performance of its retail segments, i.e., BAWAG P.S.K. Retail and easygroup, which together accounted for 67.1%, 58.6% and 63.4% of BAWAG Group's core revenues in the financial years 2016, 2015 and 2014, respectively. BAWAG Group's non-retail segments, i.e., DACH Corporates & Public Sector, International Business and Treasury Services & Markets also contribute considerably to BAWAG Group's results of operations and collectively accounted for 33.3%, 37.3% and 35.5% of BAWAG Group's core revenues in the financial years 2016, 2015 and 2014, respectively. The results of operations of BAWAG Group's retail and non-retail segments are driven by different factors, as discussed below.

The following discussion reflects the principal factors which BAWAG Group believes have, in the periods for which financial information is presented in this Prospectus, contributed to the development of the net assets, financial condition and results of operations of BAWAG Group. This section also includes factors that relate only to a specific reportable segment of BAWAG Group to the extent that they are significant enough to affect the net assets, financial condition or results of operations of BAWAG Group as a whole. BAWAG Group expects that these factors will continue to influence the development of BAWAG Group's net assets, financial condition and results of operations in the future.

10.3.1 Interest Rates and Net Interest Income

BAWAG Group's earnings are significantly dependent on its net interest income, which is determined primarily by (1) the volume of BAWAG Group's interest-earning assets and interest-earning liabilities, together with (2) the difference between interest earned from interest-earning assets, such as loans and investment securities, and interest paid on interest-earning liabilities, such as deposits and borrowings. BAWAG Group's net interest income is affected by a number of factors, including, in particular, changes in interest rates. Interest rates are highly sensitive to many factors beyond BAWAG Group's control, including monetary policies and domestic and international economic and political conditions. See also "*3.1.8 BAWAG Group is exposed to various forms of market risks, including interest rate risk and credit spread risks, which could have a material adverse effect on BAWAG Group's business, financial condition,* results of operations and *prospects.*" Furthermore, changes in market interest rates may lead to temporary repricing gaps between BAWAG Group's interest-earning assets and interest-earning liabilities, which can also affect net interest income. Generally, however, BAWAG Group believes that it is well positioned to benefit from rising interest rates. For example, if market interest rates rise by 100 basis points, BAWAG Group expects on the basis of its own simulations over a three-year horizon a positive impact on its net interest income in the range of € 65 million to € 100 million per year. In contrast, a decline of market interest rates by 100 basis points is estimated to result in a negative impact on the net interest income of € 45 million to € 90 million per year.

Net interest income is the largest component of BAWAG Group's operating income, accounting for 73.7%, 74.3% and 73.1% of operating income for the financial years 2016, 2015 and 2014, respectively. BAWAG Group has historically generated most of its interest income from loans and receivables. These accounted for 68.2%, 62.4% and 59.0% of BAWAG Group's interest income for the financial years 2016, 2015 and 2014, respectively.

Interest-earning assets of BAWAG Group consist principally of (1) consumer loans, retail mortgage loans and consumer leases relating to vehicles and other moveable assets, which are provided by the BAWAG P.S.K. Retail and easygroup segments, and (2) corporate and public sector loans (including real estate loans) provided, and corporate and public sector bonds held, by the DACH Corporates & Public Sector and International Business segments.

Strong competition for public sector customers as well as corporate customers (due to the high number of over-liquid banks and relatively weaker loan demand) has led to intense pressure on margins in the lending business of the DACH Corporates & Public Sector segment (average customer yields in the DACH Corporates & Public Sector segment were 1.70%, 1.96% and 2.45% for the financial years 2016, 2015 and 2014, respectively) and the International Business segment outside the DACH region (average customer yields in the International Business segment were 4.07%, 4.19% and 4.29% for the financial years 2016, 2015 and 2014, respectively), thereby putting downward pressure on BAWAG Group's asset yields and net interest income. The International Business segment recorded total new originations of corporate and real estate loans of € 2,688 million with an average margin of 3.72% in the financial year 2016.

In response to this unfavorable low-interest rate environment and the resulting lack of earning potential, the DACH Corporates & Public Sector segment has sought to maintain or increase strong risk-adjusted pricing in the lending business. Furthermore, the DACH Corporates & Public Sector segment has focused less on the lending business and more on other banking service businesses (generating net fee and commission income rather than net interest income) by using its existing client relationships to generate more fee-related business, such as payments and cash management services, with respect to customers throughout the segment, including the public sector as well as corporate and real estate.

In addition, decreased overall commercial loan demand in the DACH region led to low new lending volumes in the financial years 2014 to 2016. Factors responsible for the low commercial loan demand included flat output and low corporate investment, as well as macro-economic factors across Europe, such as the sovereign debt crisis. Accordingly, to compensate for the low profits in the lending business of the DACH Corporates & Public Sector segment, BAWAG Group's strategies focus on price discipline instead of market share, lean administrative structures allowing for low overhead costs and strengthening client relationships that provide opportunities for cross-selling products, in particular payment and cash management services. Lean administrative structures require a focus on more standardized business and de-emphasizing more complex lending products such as export-financing. Core revenues in the DACH Corporates & Public Sector segment for the financial year 2016 of € 119.2 million consisted of € 79.5 million of net interest income and € 39.7 million of net fee and commission income. In the financial years 2015 and 2014, core revenues in the DACH Corporates & Public segment amounted to € 138.6 million and € 153.9 million consisting of € 99.4 million and € 112.5 million of net interest income, and € 39.2 and € 41.3 million of net fee and commission income, respectively. No other segment had a higher percentage share of net fee and commission income in core revenues. The DACH Corporates & Public Sector segment has also sought to develop relationships with other companies in the financial sector, such as insurance companies, including Wüstenrot Group, and investment companies, to generate opportunities for fee-related business by brokering products, such as building society savings and loans or investment funds.

In the six-month period ended June 30, 2017, the DACH Corporates & Public Sector segment acquired new lending volume in the amount of € 381 million in addition to regular renewals, which is in a similar range compared to the six-month period ended June 30, 2016.

Core revenues of the Treasury Services & Markets segment decreased from € 58.1 million in the financial year 2015 by 6.5% to € 54.3 million in the financial year 2016, due to the pressure on yields of high quality assets triggered by the low-interest rate environment. This decrease in core revenue was substantially offset by a reduction in operating expenses from € 19.0 million in the financial year 2015 by 14.2% to € 16.3 million in the financial year 2016 due to BAWAG Group's initiatives to reduce operating expenses by implementing lean administrative structures. Operating expenses of the Treasury Services & Markets segment decreased by 12.1% in the financial year 2015 from € 21.6 million in the financial year 2014.

The consumer loan business experienced lower pressure on margins than other lending sectors and, therefore, has provided attractive risk-adjusted revenues. Accordingly, BAWAG P.S.K. Retail continued to grow the consumer loan franchise over the last years and also increased its market share. At the end of the financial year 2016, the share of BAWAG P.S.K. Retail in the Austrian consumer loan market was 11.4% (excluding easygroup), up 150 basis points from the end of the financial year 2015, driven by branch sales, active marketing campaigns to attract new customers and growing demand for BAWAG P.S.K. Retail's online offering. Total new consumer loan originations in the financial year 2016 amounted to € 557 million with an average margin of 6.15% and with net asset growth of 9% compared to the financial year 2015. In addition, total new originations of retail mortgage loans in the financial year 2016 amounted to € 563 million with an average margin of 1.83%.

As of June 30, 2017, the share of BAWAG P.S.K. Retail in the Austrian consumer loan market was 12.4% (excluding easygroup), up 180 basis points from June 30, 2016. In the six-month period ended June 30, 2017, BAWAG P.S.K. Retail continued to grow its consumer lending franchise by originating € 269 million of new consumer loans, with net asset growth of 6% compared to the six-month period ended June 30, 2016. Likewise, despite the unfavorable interest rate environment, easygroup continued to establish and grow its lending business, with a particular focus on consumer auto leasing. This performance was driven by a combination of organic growth and the acquisition of VB Leasing. Overall, easygroup recorded loan and lease originations of € 460 million in the financial year 2016, including € 359 million in consumer auto leasing (with an average margin of 3.64%), which was up 9% compared to the financial year 2015 on a like-for-like basis (i.e., taking into account the auto leasing receivables forming part of the acquisition of VB Leasing for the full financial year 2015), and € 409 million in total leasing, up 3% compared to the financial year 2015 on a like-for-like basis (i.e., taking into account the leasing receivables forming part of the acquisition of VB Leasing for the full financial year 2015). In the six-month period ended June 30, 2017, easygroup recorded new originations of € 222 million (primarily including auto leases, consumer loans and mortgage loans). easygroup works with approximately 1,000 dealerships, representing approximately 50% of auto dealerships in Austria. The focus on the leasing business is reflected in the launch of the new brand easyleasing as a "one brand and one face" to leasing customers in Austria.

Interest-earning liabilities consist principally of (1) deposits from corporate and retail customers, as the core part of BAWAG Group's funding strategy, (2) debt and capital instruments issued by BAWAG Group, such as unsecured bonds, covered bonds secured by mortgage and public sector collateral, and RMBS. See also "*10.3.4 Funding Markets*".

On the liability side of the BAWAG P.S.K. Retail segment, the shift from fixed-rate term deposits to current accounts and daily savings accounts continued, leading to lower funding costs. Overall, the blended external interest rate on retail deposits stood at 0.28% at the end of the financial year 2016, and at 0.19% as of June 30, 2017. The acquisition of start:bausparkasse and IMMO-BANK increased the BAWAG P.S.K. Retail segment's overall deposit volume by € 2 billion and also caused an increased average deposit rate due to older building society savings included in the acquisition that have an average interest rate of 1.2% p.a. as these building society savings either have a fixed interest rate or, in case of a floating interest rate, an interest rate floor. easybank reduced its external interest rate offered to customers, bringing easygroup's average deposit rate from 0.48% at the end of the financial year 2015 to 0.35% at the end of the financial year 2016 and to 0.07% as of June 30, 2017.

BAWAG Group expects that, as fixed-rate savings accounts and building society savings with higher interest rates mature, they will be replaced with lower interest rate deposits, which will lead to lower funding costs for the retail business in the future. As of June 30, 2017, fixed savings amounted to €1.4 billion at an interest rate of 0.91% and building society deposits to €1.8 billion at an interest rate of 0.83%. For € 10.5 billion of variable saving deposits the average interest rate was at 0.11% in respect of the six-month period ended June 30, 2017.

10.3.2 Regulatory Environment

BAWAG Group operates in an industry that is highly regulated by financial services laws and regulations, corporate governance and administrative requirements and policies. The ongoing development of regulatory requirements has had and will likely continue to have an impact on BAWAG Group's results of operations in a number of ways. For example, following changes to the Austrian bank levy regulation, BAWAG Group opted to pay a one-time Austrian bank levy (*Bankenstabilitätsabgabe*) in the amount of € 41.0 million in the financial year 2016 rather than spreading the payment out over five years. This one-time payment was in addition to the regular bank levy of € 21.8 million in the financial year 2016. As a result of the one-time payment, a reduced regular bank levy of € 4.5 million is expected for the financial year 2017. Regulatory charges of BAWAG Group amounted to € 84.9 million (including the aforementioned one-off bank levy paid in the financial year 2016), € 35.2 million and € 24.6 million in the financial years 2016, 2015 and 2014, respectively. In the period ended June 30 2017, regulatory charges of BAWAG Group amounted to € 27.1 million. For further explanations see "*10.6.2 Comparison of the Financial Years ended December 31, 2016, and December 31, 2015*" and "*10.6.3 Comparison of the Financial Years ended December 31, 2015, and December 31, 2014*" and "*10.6.1 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016*".

For further information on the regulatory environment and a number of specific regulatory initiatives and frameworks that can have a significant impact on BAWAG Group's business, financial condition, results of operations and prospects, see "*10.6.2 Comparison of the Financial Years ended December 31, 2016, and December 31, 2015*" and "*10.6.3 Comparison of the Financial Years ended December 31, 2015, and December 31, 2014*".

10.3.3 Competition in the Banking Sector

The banking industry is intensely competitive in both the retail and non-retail businesses. During the periods under review, this has resulted in continued pressure on margins. See also "*12 Market and Competitive Environment*".

The banking sector, especially retail banking, is extremely competitive in Austria which is BAWAG Group's core market. See also "*3.1.4 BAWAG Group is exposed to intense competition, particularly in its home market of Austria, which could have a material adverse effect on its business, financial condition, results of operations and* prospects." BAWAG Group competes with Bank Austria (part of UniCredit Group), Erste Group including associated savings banks, the cooperative banks (predominantly with the Raiffeisen Banking Group across its three tiered structure but also with the Volksbanken sector) and smaller market players such as Oberbank and Santander as well as specialized market players focusing on specific market segments (e.g., ING-DiBa in respect of direct banking).

Internationally (i.e., in Germany, Switzerland and with regard to corporate and real estate lending in other countries), BAWAG Group competes with a large number of institutions providing credit solutions in corporate and real estate lending situations.

In accordance with its strategy, BAWAG Group generally strives to avoid offering the low-profit or even loss-making products that many of its competitors are currently offering. BAWAG Group's consumer loan business has experienced lower pressure on margins than other lending sectors, in particular corporate lending, because consumer loans are, in general, less price-sensitive. In BAWAG Group's experience, retail customers tend to focus on the repayment conditions, such as monthly installments and the overall term of a loan rather than the applicable interest rate. Due to rather low principal amounts and longer maturities of up to ten years, higher interest rates only have a minor impact on the absolute amount of a retail borrower's monthly installment payments. In retail mortgage loans, BAWAG Group strives to compete by offering fixed interest rates with longer maturities than its competitors (e.g., start:bausparkasse offers mortgage loans with fixed interest rates for 30 years) and to hedge the corresponding interest rate risk. BAWAG Group also benefits from its loyal retail customer base and long-standing customer relationships (e.g., more than 60% of BAWAG P.S.K. Retail's customers have been with BAWAG P.S.K. Retail for at least ten years, as of June 30, 2017). In the domestic and international corporate and public sector segments, BAWAG Group focuses on generating more fee-related business (e.g., payments and cash management services) by using its existing client relationships. In addition, BAWAG Group monitors the corporate and public sector markets in order to find niches, such as mid-size transactions, and to provide fast decision-making processes to compensate for higher pricing. However, increased competition could impact the pricing of BAWAG Group's product offering, which could negatively affect the pricing of its products in a manner that reduces their profitability and could put further pressure on its margins. See also "*10.3.1 Interest Rates and Net Interest Income*". In addition, BAWAG Group strives to focus on price discipline and lean administrative structures allowing for low overhead costs throughout its segments in order to offset pricing pressure and to defend its market position.

Both in Austria and internationally, BAWAG Group is closely following the emergence of Fintechs, which in the medium term could take away market shares in specific products and/or put additional pressure on margins. BAWAG Group believes that, to address these new challenges, banks must provide a full online product offering, adapt, invest in and enhance IT solutions through new technologies (e.g., online sales channels and process automation) as well as continually evaluate opportunities to cooperate with selected Fintechs. BAWAG Group uses this digitalization trend and the corresponding changed customer behavior, such as the shift from teller transactions to conducting banking transactions online or via self-service devices, to reduce transaction costs. Further measures to reduce costs include paperless statements for current and savings accounts, loans and securities accounts as well as online and video legitimation for new customers. In addition, BAWAG P.S.K. Retail optimized its branch network in the financial year 2016 to drive efficiency and enhance lean overhead structures. For further details see "*10.3.5 Digitalization Trend*".

10.3.4 Funding Markets

BAWAG Group relies on customer deposits and wholesale markets for funding. Its results depend on its ability to maintain and grow customer deposits as well as access wholesale funding, both of which in turn depend on various factors that sometimes are outside BAWAG Group's control. See also "*3.1.5 BAWAG Group is dependent on the confidence of its customers in the banking system and the business of BAWAG Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.*" and "*3.1.15 BAWAG Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.*"

Retail and corporate deposits have historically been the core part of BAWAG Group's funding strategy and are expected to continue to be the primary source of funding. Customer deposits totaled € 26 billion (€ 22 billion retail and € 4 billion non-retail), € 21.7 (€ 18.9 billion retail and € 2.8 billion non-retail) and € 21.1 billion (€ 18.7 retail and € 2.4 billion non-retail) as of December 31, 2016, 2015, and 2014, respectively, which represented 74%, 69% and 69%, respectively, of BAWAG Group's financial liabilities at those dates. Retail deposits refer to deposits allocated to the segments BAWAG P.S.K. Retail and easygroup; non-retail deposits refer to deposits allocated to the segments DACH Corporates & Public Sector and International Business. BAWAG Group's ability to maintain and grow customer deposits depends, in particular, on the confidence of the public in the economy, the financial sector and banks (including BAWAG Group).

BAWAG Group supplements its deposit funding with a diversified strategy of wholesale funding. BAWAG Group raises wholesale funding mainly from various institutional investors, and BAWAG Group has issued unsecured bonds, covered bonds secured by mortgage and public sector collateral, and RMBS. As of December 31, 2016, BAWAG Group had a wholesale funding ratio of less than 25% (and less than 30% as of December 31, 2015). A market disruption of substantial magnitude could restrict BAWAG Group's ability to access wholesale funding through the capital markets. See also "*3.1.15 BAWAG Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.*"

BAWAG Group's long-term goal is to maintain strong deposit funding and a diversified wholesale funding structure. BAWAG Group's ratio of secured funding to overall funding stood at 12% as of December 31, 2016, which is reflective of the low overall encumbrance of BAWAG Group's balance sheet assets. BAWAG Group's LCR was 138% at the end of the financial year 2016.

10.3.5 Digitalization Trend

In recent years, the share of banking transactions conducted via internet or mobile banking platforms on smartphones or tablets in the markets in which BAWAG Group operates has grown and is expected to grow further. This requires BAWAG Group to continuously anticipate and adapt to emerging technologies and related changes in customer behavior. Any failure to effectively anticipate or adapt to emerging technologies or changes in customer behavior, particularly among younger customers, could delay or prevent BAWAG Group's access to new digital-based markets which would in turn have an adverse effect on BAWAG Group's competitive position and business. See also "*3.1.16 If BAWAG Group fails to adapt to rapid technological changes its competitiveness could decline.*"

The digitalization trend is particularly relevant for direct banking but is also significantly reshaping retail banking. Low-value payment transactions are increasingly shifting to digital solutions. In the financial year 2016, 86% of BAWAG Group's total customer transactions were conducted online or via self-service devices. Challenges resulting from the digitalization trend include competition from non-banking industries, such as technology or service companies extending their product offerings to include banking services, and Fintech start-ups, as well as fundamental changes in the attitudes of customers, who are making decisions much faster and have access to a broad range of options for financial products and services, see also "*12.3.1.2.2 Developments and Key Trends*". BAWAG Group directly addresses this digitalization trend through its easygroup segment, which includes BAWAG Group's direct banking subsidiary easybank AG. easygroup has a full online product offering allowing access to all banking products via personal computers, smartphones or tablets.

The ongoing shift to digital and self-service channels is also a key factor for the BAWAG P.S.K. Retail segment and the migration of customers towards digital and customer care channels has progressed significantly. The BAWAG P.S.K. Retail segment includes 1.8 million private and small business customers, serviced through a centralized branch network as well as online and mobile sales channels supported by BAWAG P.S.K. Retail's customer care center which manages customer contacts via telephone and e-mail on a centralized basis. BAWAG P.S.K. Retail continuously invests in its digital platform to further enhance its online product offering and sales channels. For example, in the six-month period ended June 30, 2017, BAWAG P.S.K. Retail launched a video legitimation for online loans allowing for a 100% digital completion. BAWAG Group invested € 12 million in digital transformation measures ranging from full online sales capabilities to investments in electronic and mobile banking and data analytics over the financial years 2014 to 2016. Overall, capital expenditures of BAWAG Group on software and other intangible assets amounted to € 50 million in the financial year 2016, € 26 million in the financial year 2015 and € 35 million in the financial year 2014. In addition, BAWAG Group continuously evaluates opportunities to cooperate with selected Fintechs.

In the financial year 2016, BAWAG P.S.K. Retail originated new consumer loans in the amount of € 16.8 million purely online which represented 3.0% of the € 557.1 million total amount of new consumer loans originated by BAWAG P.S.K. Retail in that financial year. This reflects an increase of 32.3% compared to the € 12.7 million of new consumer loans originated purely online in the financial year 2015 (representing 2.8% of the € 456.8 million total amount of new consumer loans originated in that financial year). Further € 29.7 million in new consumer loans originated by the BAWAG P.S.K. Retail segment in the financial year 2016 were initiated through BAWAG P.S.K. Retail's online channels and eventually concluded in branches, an increase of 28.0% compared € 23.2 million of such loans in the financial year 2015. In addition, new consumer loans in the amount of € 106.2 million were initiated through customer care channels (i.e., via BAWAG P.S.K. Retail's customer care center) and eventually concluded in BAWAG P.S.K. Retail's branches in the financial year 2016, an increase of 71.0% compared to € 62.1 million of such loans in the financial year 2015.

Compared to the financial year 2015, the number of online payment transactions in the financial year 2016 increased by 10% and the share of online transactions via BAWAG P.S.K. Retail's mobile apps increased by 49%. Furthermore, during that time a total of 61% of all logins to BAWAG P.S.K. Retail's e-banking platform came from mobile devices, up eight percentage points from the financial year 2015. The number of teller transactions with respect to the BAWAG P.S.K. Retail segment decreased by 11% to 5.4 million teller transactions in total, reflecting the changing composition of overall payments, the migration to digital and the significant shift in customer behavior.

Compared to the six-month period ended June 30, 2016, the number of online payment transactions in the six-month period ended June 30, 2017, increased by 7% and the share of online transactions via BAWAG P.S.K. Retail's mobile apps increased by 55%. Furthermore, during that period a total of 63% of all logins to BAWAG P.S.K. Retail's e-banking platform came from mobile devices, up seven percentage points from the six-month period ended June 30, 2016, and the number of teller transactions decreased by 13% compared to the six-month period ended June 30, 2016.

This digitalization trend also helps to free up personnel to sell advisory products (such as insurance, securities and loans) and reduces transaction costs, both of which positively influence BAWAG Group's results of operations. With a view to changed customer behavior, BAWAG P.S.K. Retail optimized its branch network in the financial year 2016 to drive efficiency and enhance lean overhead structures. Core branches offering full-service were reduced from 480 to 280, a reduction that included eliminating approximately 90 full time equivalent ("**FTE**") positions and led to € 12 million savings in 2016 (as compared to 2015). Further steps to adjust BAWAG P.S.K. Retail's footprint to changed customer needs are under consideration. For further information, see "*13.3.3 Focus on Efficiency and Operational Excellence*".

10.3.6 Income Taxes and Deferred Taxes

In the periods under review, BAWAG Group's income taxes and net profit were considerably impacted by the use of tax loss carryforwards, deferred taxes on loss carry forwards and related one-off effects.

In the six-month period ended June 30, 2017, income taxes amounted to € 47.1 million. In the six-month period ended June 30, 2016, however, BAWAG Group reported a tax benefit in the amount of € 39.3 million, which was mainly due to the recognition of deferred tax assets on tax loss carryforwards. Based on a profit before tax for BAWAG Group of € 250.6 million in the six-month period ended June 30, 2017, the ratio of reported income tax for such period to profit before tax for such period was 19%.

For a profit before tax of € 470.4 million in the financial year 2016 (€ 418.5 in the financial year 2015 and € 318.9 million in the financial year 2014), based on the general corporate income tax rate in Austria of 25%, computed income tax would have amounted to € 117.6 million in the financial year 2016 (€ 104.6 million in the financial year 2015 and € 79.7 in the financial year 2014).

Reductions in tax, however, due to use of tax loss carryforwards of the tax group parent amounted to € 12.0 million in the financial year 2016 (€ 20.4 million in the financial year 2015 and € 7.5 in the financial year 2014) and reductions in tax due to valuation of deferred taxes on tax loss carryforwards amounted to € 76.9 million in the financial year 2016 (€ 67.7 million in the financial year 2015 and € 43.6 million in the financial year 2014). In the financial year 2016, reported income tax at the level of BAWAG Group resulted in a benefit in the amount of € 13.4 million whereas in the financial years 2015 and 2014, reported income taxes amounted to € 24.1 million and € 0.5 million, respectively.

BAWAG Group expects that its deferred tax assets from prior tax loss carryforwards will be fully absorbed through the first half of the financial year 2019. The absorption of the deferred tax assets from prior tax loss carryforwards leads to tax expenses in the profit and loss statement. Based on BAWAG Group's current estimates, BAWAG Group has assumed that it will not be subject to significant cash income taxes in Austria until (and including) 2018.

Tax goodwill amortization from the acquisition of BAWAG P.S.K. will result in approximately € 76 million per year in tax deductible expenses (i.e., as tax base reduction) until the end of the financial year 2021 (i.e., € 378.0 million in total tax base reduction).

BAWAG Group expects an effective tax rate of approximately 22% per year (excluding the acquisition of Südwestbank, and of approximately 23% including the acquisition of Südwestbank) following the financial year 2017 until the end of the financial year 2021. Further acquisitions by BAWAG Group could lead to higher than expected income tax expense and may also lead to higher than expected effective tax rates. The expected effective tax rate is estimated on the basis of current accounting and tax regulations applicable to BAWAG Group's operations and certain further assumptions, including in relation to the earnings level. As the underlying assumptions and method of calculation may differ from those made and used by other companies for the purpose of computing income tax expense, the reported income tax expense and therefore the effective tax rates reported or estimated by BAWAG Group may not be comparable to effective tax rates reported by other companies.

10.3.7 Integrations and Comparability of Information Relating to M&A Activities

As a result of business integrations following certain acquisitions by BAWAG Group in the periods under review (see also "*10.2 Key Events in the Periods under Review*"), the financial information presented in this

Prospectus is not presented on a consistent basis and may not present a like-for-like comparison of the results of operations, financial position, changes in equity or cash flows of BAWAG Group at the relevant period end or for the period presented. Consequently, the financial information presented herein may not illustrate all trends relevant to a complete evaluation of BAWAG Group's results of operations, business and future prospects.

10.4 Key Financials and Key Performance Indicators

10.4.1 General

Monitoring and management at BAWAG Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of BAWAG Group. As is customary in BAWAG Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and are non-GAAP measures, in order to evaluate, monitor and manage the business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from BAWAG Group's accounting system and management estimates. These non-GAAP measures are defined by BAWAG Group's management and may not be comparable to similar measures used by other companies. non-GAAP measures should not be considered in isolation and investors should not consider such information as alternatives to revenues or profit before tax or any other figure or ratio calculated in accordance with IFRS, as indications of operating performance or as measures of BAWAG Group's profitability or other performance or financial position of any kind. Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS included elsewhere in this Prospectus. Investors are cautioned not to place undue reliance on these non-GAAP measures and are also advised to review them in conjunction with the financial statement and related notes included elsewhere in this Prospectus.

The financial key performance indicators BAWAG Group uses to track the financial performance of its business and to guide its management are *inter alia* net interest income, net fee and commission income, core revenues, operating income, operating expenses, total risk costs, profit before tax, net profit, RoE, RoE (@12% CET1), RoTE, RoTE (@12% CET1), return on risk-weighted assets, return on total assets, Net Interest Margin, Cost-Income Ratio, ratio of risk costs to loans and receivables, NPL ratio, leverage ratio (Fully Loaded), CET1 ratio (Fully Loaded), LCR and total capital ratio (Fully Loaded).

10.4.2 Explanation of Certain Key Financials and Key Performance Indicators

The following is an explanation of some key financials and key performance indicators and related terms and how they are calculated. For information on APMs, namely Cost-Income Ratio, Net Interest Margin, RoE, RoE (@12% CET1), RoTE and RoTE (@12% CET1), see "*Alternative Performance Measures*".

10.4.2.1 Non-regulatory Key Financials and Key Performance Indicators

The following non-regulatory key financials and key performance indicators refer to BAWAG Group and/or any of its segments. Any figures referring to BAWAG Group are figures of the Company consolidated in accordance with the consolidation provisions of IFRS (unless otherwise indicated). These metrics are used by management to track the financial performance of BAWAG Group, but are not defined or used by financial regulators to monitor its business.

Core Revenues

Core revenues are the total of the line items net interest income and net fee and commission income and demonstrate BAWAG Group's ability to generate revenue in its core banking activities.

Customer Deposits

Customer deposits are deposits of retail, business and institutional customers.

Customer Deposits (Including Other Refinancing)

Customer deposits (including other refinancing) are customer deposits as well as refinancings taken out from promotional banks (e.g., from the European Investment Bank (EIB) or Oesterreichische Kontrollbank Aktiengesellschaft) at favorable refinancing interest rates with regard to certain corporate loan financings that qualify for public promotion.

IFRS Equity

IFRS equity means equity as presented in the consolidated financial statements in accordance with IFRS and shows the equity attributable to the owners of the parent of the Company (excluding minority interests in certain of the Company's subsidiaries).

Net Fee and Commission Income

Net fee and commission income is defined as the line item fee and commission income minus the line item fee and commission expense.

Net Interest Income

Net interest income is defined as the line item interest income minus the line item interest expense plus the line item dividend income.

Net Profit

Net profit represents the profit after tax as presented in the Audited Consolidated Financial Statements that is available for profit distribution to the shareholders.

NPL

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

NPL Ratio

The NPL ratio ("**NPL ratio**") is defined as NPLs divided by the total exposure (comprising all on- and off-balance positions bearing credit risk, including accrued interest and fair value adjustments) of the bank. The NPL ratio reflects the quality of BAWAG Group as well as the performance of BAWAG Group's credit risk management in terms of underwriting, risk identification, measurement and monitoring as well as collection/workout.

Operating Expenses

Operating expenses are the total of staff costs, other administrative expenses, depreciation and amortization, restructuring and other one-off expenses, but do not include certain regulatory charges.

Operating Income

Operating income is the total of the line items core revenues, gains and losses on financial instruments and other operating income and expenses.

Profit before Tax

Profit before tax encompasses all income earned regardless of source. This includes interest, commission and other operating income as well as gains and losses on financial assets and liabilities. All expenses (other operating expenses, operating expenses, risk costs) are subsequently deducted except for corporate income tax. Adjustments for the share of the profit or loss of associates accounted for using the equity method are included as well.

Ratio of Risk Costs to Loans and Receivables

The ratio of risk costs to loans and receivables is calculated by dividing the total risk costs by the average amount of loans and receivables (including provisions). The average amount of loans and receivables (including provisions) is calculated by adding the end values of the current and the preceding period and dividing the sum by two. 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 balance of the loan portfolio 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, a low ratio would imply that there are only few actual credit losses and little need for provisioning.

Return on Total Assets

The return on total assets is calculated by dividing net profit by the average amount of total assets. The average amount of total assets is calculated by adding the end values of the current and the preceding period and dividing the sum by two. This metric provides a profitability measure by expressing the net profit as presented in the income statement as a percentage of the underlying total assets. Return on total assets is a business indicator and a measure for economic success of a management's business activities.

Total Risk Costs

Total risk costs is the total of provisions and loan-loss provisions, impairment losses and operational risk costs. Operational risk costs represent losses resulting from inadequacy or failure of internal processes, people, systems, or external events.

10.4.2.2 Regulatory Key Financials and Key Performance Indicators

The following regulatory key financials and key performance indicators refer to BAWAG Group and/or any of its segments except for the Liquidity Coverage Ratio (LCR) which, because of regulatory requirements, is based on figures for PSH as well as certain subsidiaries of PSH and other entities required to be consolidated pursuant to the provisions of the CRR ("**PSH Group**"). Any figures referring to BAWAG Group and/or PSH Group are figures consolidated in accordance with the respective consolidation provisions of the CRR.

CET1 Capital

CET1 capital is an IFRS CRR regulatory figure. CET1 capital is defined by the CRR and represents the highest quality of capital. It, therefore, only comprises capital instruments that are available to BAWAG Group for unrestricted and immediate use to cover risks or losses as soon as they occur. Hence, a higher CET1 capital results normally in a higher resilience against such risks or losses. In respect of interim accounts, CET1 capital includes interim profit and year-to-date loan-loss provision movements.

CET1 Ratio

CET1 ratio is calculated by dividing CET1 capital by the amount of risk-weighted assets. The CET1 ratio is one of the most important regulatory metrics and demonstrates a bank's financial strength by providing a measure for how well a bank can withstand financial stress. BAWAG Group consistently monitors the CET1 ratio to ensure compliance with regulatory minimum requirements and management buffers.

Leverage Ratio

The leverage ratio is calculated by dividing Tier 1 capital by the total leverage exposure (calculation according to CRR) as of a certain date. From September 30, 2016, onwards, the total exposure calculation was adapted from three-month averages to an end-of-period figure in line with changed regulatory requirements. The leverage ratio is a regulatory metric and expresses the relationship between BAWAG Group's Tier 1 capital and its total leverage exposure, where total leverage 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 BAWAG Group is. Hence, a higher leverage ratio indicates that BAWAG Group has a lower leverage, which normally results in a higher likelihood of BAWAG Group withstanding negative shocks to its balance sheet.

Liquidity Coverage Ratio (LCR)

The LCR is calculated by dividing the amount of liquid assets by the net liquidity outflows (calculation according to CRR) of PSH Group. The LCR is a regulatory metric that ensures that PSH Group maintains adequate levels of liquidity, i.e., sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, PSH Group 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. Going forward, compliance with the LCR requirement will be supervised at the level of BAWAG Banking Group (and for each credit institution), and no longer on the basis of the PSH Group (see "*17.2.2 Consolidated Supervision*" and "*17.6 Liquidity Requirements*").

Return on Risk-Weighted Assets

The return on risk-weighted assets is calculated by dividing net profit by the average amount of risk-weighted assets. The average amount of risk-weighted assets is calculated by adding the end values of the current and the preceding period and dividing the sum by two. This metric provides a profitability measure by expressing the net profit as presented in the income statement as a percentage of the underlying risk-weighted assets. Return on risk-weighted assets is a business indicator and a measure for economic success of a management's business activities.

Risk-Weighted Assets

The risk-weighted-assets are based on IFRS CRR regulatory figures. The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for BAWAG Group and includes both on-balance and off-balance positions. When calculating the amount, BAWAG Group 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).

Total Capital

Total capital is a regulatory metric similar to CET1 capital but which extends the eligible capital for this purpose to include other instruments (e.g., AT1 and T2 instruments) not falling within the strict CET1 definition. In respect of interim accounts, total capital includes interim profit and year-to-date loan-loss provision movements.

Total Capital Ratio

The total capital ratio is calculated dividing total capital by the amount of risk-weighted assets. The total capital ratio is consistently monitored by the management of BAWAG Group 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 (for further details, see "*10.8.5 Key Regulatory Capital and Leverage Ratios*"). Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio than total capital and the total capital ratio.

10.4.3 Summary of Key Financials and Key Performance Indicators for BAWAG Group

Certain key financials and key performance indicators for BAWAG Group as of and for the six-month period ended June 30, 2017, and the financial year ended December 31, 2016, 2015, and 2014, can be summarized as follows:

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Net interest income	395.4	376.3[1]	730.0	722.3	675.4[2][3]
Net fee and commission income	106.1	103.0	192.9	185.9	197.8
Core revenues	501.5	479.3[1]	922.9	908.2	873.3[3]
Operating income	521.2	505.1	990.5	971.8	923.6[3]
Operating expenses[5]	(217.6)	(215.2)	(439.3)	(470.1)	(494.7)[3][4][6][7]
Total risk costs	(26.7)	(15.9)	(42.7)	(45.8)	(84.3)[7]
Profit before tax	250.6	244.4	470.4	418.5	316.2[4][8]
Net profit	203.5	283.5	483.6	394.4	315.0[4][9]
RoE[4]	12.6%	19.3%	15.9%	14.1%[10]	13.0%[9]
RoE (@12% CET1)[4]	14.7%[18]	20.9%[18]	16.9%[18]	14.4%[18]	12.0%[9]
RoTE[4]	14.2%	21.8%	17.9%	16.1%	15.3%[9]
RoTE (@12% CET1)[4]	16.9%[18]	23.9%[18]	19.2%[18]	16.3%[18]	14.0%[9]
Return on risk-weighted assets[4][17]	2.19%[18]	3.35%[18]	2.65%[18]	2.30%[18]	1.92%[9]
Return on total assets[17]	1.02%[11]	1.61%[11]	1.22%	1.10%	0.88%[4][9]
Net Interest Margin[4]	2.23%	2.38%[1][12]	2.31%	2.35%[12]	2.14%[12][13]
Cost-Income Ratio[4][5]	41.7%	42.6%	44.4%	48.4%	53.6%
Risk costs / loans and receivables[4]	0.17%	0.12%	0.15%	0.17%	0.32%
NPL ratio[4]	1.9%	2.0%[14]	1.7%[13]	1.9%[14]	2.0%[14]
CET1 ratio (Fully Loaded)	15.5%[18]	14.5%[18]	13.6%[18]	12.3%[15][18]	12.2%
Leverage ratio (Fully Loaded)[4]	7.0%	6.6%	6.5%	6.5%	5.7%
Liquidity coverage ratio (LCR)[16]	146%	141%	138%	137%	134%
Total capital ratio (Fully Loaded)[4]	18.1%[18]	17.3%[18]	16.2%[18]	15.0%[15][18]	15.9%

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.
2) Numbers differ from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015 due to rounding differences.
3) Net interest income for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement of BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.
4) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
5) Numbers for operating expenses do not include certain regulatory charges that are otherwise included in the line item other operating income and expenses reported on the level of BAWAG Group in the Audited Consolidated Financial Statements.

Consequently, such regulatory charges are disregarded for the calculation of the cost-income-ratio. For more information, see "*10.5.5 Other Operating Income and Expenses*".

6) Operating expenses for BAWAG Group for the financial year 2014 as shown in the above table exclude € 4.6 million in supervisory charges that were shifted to regulatory charges but were included in operating expenses in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015.
7) Total risk costs were restated as per the Audited Consolidated Financial Statements as of and for the financial year 2015. Total risk costs for BAWAG Group for the financial year 2014 as shown in the above table include provisions and expenses for operational risk in the amount of € 7.2 million, which were included in operating expenses in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.
8) Profit before tax for BAWAG Group for the financial year 2014 as shown in the above table excludes valuation results attributable to shareholders of non-controlling interests in the amount of € 2.7 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.
9) Numbers were restated to provide better comparability with the numbers for the financial years 2016 and 2015. Net profit of € 308.2 million for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.
10) Number differs from the management report in the consolidated annual report as of and for the financial year 2015 due to rounding differences.
11) Numbers are annualized to provide better comparability with the numbers for the financial years 2016, 2015 and 2014.
12) Number for the six-month period ended June 30, 2016, was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and numbers for the financial years 2015 and 2014 were restated as per the consolidated annual report as of and for the financial year 2016 to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
13) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
14) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
15) Numbers were restated as per the capital management in the Audited Consolidated Financial Statements as of and for the financial year 2016 and reflect the reclassification of holding customers.
16) Number is taken from PSH's accounting records or internal management reporting systems (unaudited) and is based on figures for PSH Group.
17) Return calculated on the basis of net profit.
18) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*10.4.4 Summary of Key Financials and Key Performance Indicators for the Segments of BAWAG Group*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	15.7%	14.7%	(1.0)
RoTE (@12% CET1)[4]	18.3%	16.9%	(1.4)
Return on risk-weighted assets[4]	2.39%	2.19%	(0.20)
CET1 ratio (Fully Loaded)	16.5%	15.5%	(1.0)
Total capital ratio (Fully Loaded)[4]	19.3%	18.1%	(1.2)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	21.7%	20.9%	(0.8)
RoTE (@12% CET1)[4]	24.9%	23.9%	(1.0)
Return on risk-weighted assets[4]	3.52%	3.35%	(0.17)
CET1 ratio (Fully Loaded)	15.1%	14.5%	(0.6)
Total capital ratio (Fully Loaded)[4]	18.1%	17.3%	(0.8)

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)[4]	17.9%	16.9%	(1.0)
RoTE (@12% CET1)[4]	20.5%	19.2%	(1.3)
Return on risk-weighted assets[4]	2.87%	2.65%	(0.22)
CET1 ratio (Fully Loaded)	15.1%	13.6%	(1.5)
Total capital ratio (Fully Loaded)[4]	18.0%	16.2%	(1.8)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE (@12% CET1)[4]	14.7%	14.4%	(0.3)
RoTE (@12% CET1)[4]	16.7%	16.3%	(0.4)
Return on risk-weighted assets[4]	2.37%	2.30%	(0.07)
CET1 ratio (Fully Loaded)	12.9%	12.3%	(0.6)
Total capital ratio (Fully Loaded)[4]	15.8%	15.0%	(0.8)

Source: BAWAG Group's Financial Statements and Company information.

For further information on key regulatory capital ratios, see "*10.8.5 Key Regulatory Capital and Leverage Ratios*".

10.4.4 Summary of Key Financials and Key Performance Indicators for the Segments of BAWAG Group

The following tables show certain key financial information for the segments of BAWAG Group in the periods under review:

BAWAG P.S.K. Retail

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	197.5	169.4	352.3	331.4	361.3
Net fee and commission income	82.3	74.6	141.1	135.9	153.1
Core revenues	279.8	244.0	493.4	467.3	514.4
Operating income	281.7	245.8	495.7	474.9	516.8
Operating expenses	(134.4)	(136.0)	(273.5)	(303.2)	(345.5)
Total risk costs	(16.5)	(17.3)	(40.8)	(33.9)	(40.1)
Profit before tax (= net profit)	116.5	80.1	169.1	131.5	131.2
RoE[1]	23.7%[8]	19.3%[8]	19.2%[8]	16.5%[8]	19.0%
RoE (@12% CET)[1]	27.7%[8]	20.9%[8]	20.4%[8]	16.8%[8]	17.1%
Return on risk-weighted assets[1)5]	5.23%	4.21%	4.09%	3.37%[2]	3.35%
Net Interest Margin[1]	3.38%	3.67%[3]	3.72%	3.56%	3.91%
Cost-Income Ratio[1]	47.7%	55.3%	55.2%	63.8%	66.8%
Risk costs / loans and receivables[1]	0.28%	0.38%	0.39%	0.37%	0.44%
NPL ratio[1]	2.1%	2.4%[4]	2.0%[4]	2.4%[4]	2.9%
Assets	11,632	9,256	11,659	9,178	9,201
Risk-weighted assets	4,471	3,785	4,432	3,827	3,981
Customer deposits[1)6]	17,932	15,597	18,058	15,663	15,881
Own issues[1)7]	2,924	2,561	2,990	2,122	2,435

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
3) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
4) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
5) Return calculated on the basis of net profit.
6) Customer deposits are deposits of retail, business and institutional customers.
7) Debt instruments issued by BAWAG Group (see "*10.2.9 Funding*").
8) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the*

International Business Segment" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	22.7%	23.7%	1.0
RoE (@12% CET)[1]	28.4%	27.7%	0.7

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	18.8%	19.3%	0.5
RoE (@12% CET)[1]	21.2%	20.9%	0.3

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	18.4%	19.2%	0.8
RoE (@12% CET)[1]	20.9%	20.4%	0.5

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	16.3%	16.5%	0.2
RoE (@12% CET)[1]	16.9%	16.8%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

easygroup

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Net interest income	78.3	60.2[2]	115.8	57.1	31.0
Net fee and commission income	5.4	4.6	10.1	8.1	8.3
Core revenues	83.7	64.8[2]	125.9	65.2	39.3
Operating income	83.2	64.9	124.5	65.3	42.3
Operating expenses	(15.8)	(15.7)	(30.6)	(23.4)	(23.2)
Total risk costs	5.7	(2.1)	(4.8)	0.1	(1.4)
Profit before tax (= net profit)	70.7	44.6	86.7	42.0	17.7
RoE[1]	25.7%[8]	22.1%[8]	17.8%[8]	17.6%[8]	28.1%
RoE (@12% CET)[1]	29.9%[8]	23.9%[8]	19.0%[8]	17.8%[8]	25.5%
Return on risk-weighted assets[1][6]	3.70%[8]	3.30%[8]	2.45%[8]	2.61%[3][8]	5.23%
Net Interest Margin[1]	3.67%	3.54%[2][4]	3.46%	7.32%	9.10%
Cost-Income Ratio[1]	19.0%	24.2%	24.6%	35.9%	54.7%
Risk costs / loans and receivables[1][7]	(0.27)%	0.12%	0.12%	0.00%	0.40%
NPL ratio[1]	2.9%	3.0%[5]	2.0%[5]	1.9%[5]	0.5%
Assets	4,102	3,247	4,458	3,644	378
Risk-weighted assets	3,399[8]	2,594[8]	4,249[8]	2,817[8]	405
Customer deposits[1]	3,761	3,673	3,893	3,204	2,864
Own issues[1]	496	0	585	0	0

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.

3) Restated number is taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
4) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
5) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
6) Return calculated on the basis of net profit.
7) Ratio of provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) to the average of loans and receivables (including provisions).
8) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment**
	(unaudited)		
	(in € million except for percentages or as otherwise indicated)		
RoE[1)]	34.7%	25.7%	(9.0) pp
RoE (@12% CET)[1)]	43.2%	29.9%	(13.3) pp
Return on risk-weighted assets[1)]	6.12%	3.70%	(2.42) pp
Risk-weighted assets	2,278	3,399	1,121 pp

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	**Adjusted number**	**Adjustment**
	(unaudited)		
	(in € million except for percentages or as otherwise indicated)		
RoE[1)]	27.7%	22.1%	(5.6) pp
RoE (@12% CET)[1)]	31.2%	23.9%	(7.3) pp
Return on risk-weighted assets[1)]	4.76%	3.30%	(1.46) pp
Risk-weighted assets	1,849	2,594	745

	As of and for the financial year ended December 31, 2016		
	Originally reported number	**Adjusted number**	**Adjustment**
	(unaudited)		
	(in € million except for percentages or as otherwise indicated)		
RoE[1)]	24.1%	17.8%	(6.3) pp
RoE (@12% CET)[1)]	27.4%	19.0%	(8.4) pp
Return on risk-weighted assets[1)]	4.09%	2.45%	(1.64) pp
Risk-weighted assets	2,346	4,249	1,903

	As of and for the financial year ended December 31, 2015		
	Originally reported number	**Adjusted number**	**Adjustment**
	(unaudited)		
	(in € million except for percentages or as otherwise indicated)		
RoE[1)]	21.5%	17.6%	(3.9) pp
RoE (@12% CET)[1)]	22.6%	17.8%	(4.8) pp
Return on risk-weighted assets[1)]	3.65%	2.61%	(1.04) pp
Risk-weighted assets	1,897	2,817	920

Source: BAWAG Group's Financial Statements and Company information.

DACH Corporates & Public Sector

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1)]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	31.9	40.3	79.5	99.4	112.5
Net fee and commission income	19.8	20.1	39.7	39.2	41.3
Core revenues	51.7	60.4	119.2	138.6	153.9
Operating income	53.4	60.3	120.2	143.7	155.9
Operating expenses	(20.9)	(25.7)	(53.6)	(56.8)	(59.3)
Total risk costs	5.5	1.4	4.4	(6.4)	(34.8)
Profit before tax (= net profit)	38.0	36.0	71.0	80.5	61.8
RoE[1)]	14.7%[5)]	13.9%[5)]	13.8%[5)]	15.3%[5)]	12.7%
RoE (@12% CET)[1)]	17.2%[5)]	15.1%[5)]	14.6%[5)]	15.5%[5)]	11.4%
Return on risk-weighted assets[1)4)]	2.73%	2.41%	2.37%	2.27%	1.52%
Net Interest Margin[1)]	0.81%	1.05%[2)]	1.05%	1.18%	1.30%
Cost-Income Ratio[1)]	39.1%	42.6%	44.6%	39.5%	38.0%
Risk costs / loans and receivables[1)]	(0.14)%	(0.04)%	(0.06)%	0.08%	0.37%
NPL ratio[1)]	0.9%	1.3%[3)]	0.9%[3)]	1.3%[3)]	1.6%
Assets	7,958	7,437	7,812	7,527	8,933
Risk-weighted assets	2,649	2,893	2,916	3,087	4,014
Customer deposits (incl. other refinancing)[1)]	6,115	3,759	5,284	5,568	5,393
Own issues[1)]	697	200	202	203	213

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Numbers were restated to conform to the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, and reflect changes to the definition of NPL ratio.
4) Return calculated on the basis of net profit.
5) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1)]	14.0%	14.7%	0.7
RoE (@12% CET)[1)]	17.4%	17.2%	(0.2)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1)]	13.5%	13.9%	0.4
RoE (@12% CET)[1)]	15.1%	15.1%	0

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1)]	13.1%	13.8%	0.7
RoE (@12% CET)[1)]	14.8%	14.6%	(0.2)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	15.0%	15.3%	0.3
RoE (@12% CET)[1]	15.6%	15.5%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

International Business

	As of and for the six-month periods ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million except for percentages)		(audited, unless otherwise indicated) (in € million except for percentages)		
Net interest income	65.4	67.8	134.0	142.2	100.2
Net fee and commission income	0.0	0.0	(0.1)	0.0	1.1
Core revenues	65.4	67.8	133.9	142.2	101.4
Operating income	64.9	66.1	131.1	136.2	102.8
Operating expenses	(15.0)	(13.3)	(29.9)	(25.7)	(21.7)
Total risk costs	(15.5)	3.0	1.2	0.2	0.3
Profit before tax (= net profit)	34.4	55.8	102.4	110.7	81.4
RoE[1]	12.8%[4]	20.3%[4]	18.8%[4]	19.9%[4]	21.0%
RoE (@12% CET)[1]	14.9%[4]	21.9%[4]	19.9%[4]	20.2%[4]	19.5%
Return on risk-weighted assets[1][3]	1.66%	2.64%	2.34%	2.53%	2.14%
Net Interest Margin[1]	2.45%	2.52%[2]	2.55%	2.64%	2.07%
Cost-Income Ratio[1]	23.1%	20.1%	22.8%	18.9%	21.1%
Risk costs / loans and receivables[1]	0.60%	(0.12)%	(0.02)%	0.00%	(0.01)%
NPL ratio[1]	0.9%	0.0%	0.0%	0.0%	0.1%
Assets	5,130	5,040	5,634	5,748	5,009
Risk-weighted assets	4,099	3,890	4,169	4,565	4,185

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Return calculated on the basis of net profit.
4) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	11.9%	12.8%	0.9
RoE (@12% CET)[1]	14.9%	14.9%	0

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	19.5%	20.3%	0.8
RoE (@12% CET)[1]	21.8%	21.9%	0.1

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	17.6%	18.8%	1.2
RoE (@12% CET)[1]	19.8%	19.9%	0.1

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	19.4%	19.9%	0.5
RoE (@12% CET)[1]	20.1%	20.2%	0.1

Source: BAWAG Group's Financial Statements and Company information.

Treasury Services & Markets

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Net interest income	24.9	28.2	54.3	58.1	54.8
Net fee and commission income	0.0	0.0	0.0	0.0	0.0
Core revenues	24.9	28.2	54.3	58.1	54.8
Operating income	34.7	28.9	66.2	71.9	79.7
Operating expenses	(8.0)	(8.0)	(16.3)	(19.0)	(21.6)
Total risk costs	0.0	0.0	(0.0)	0.0	0.0
Profit before tax (= net profit)	26.7	20.9	49.9	52.9	58.1
RoE[1]	14.2%[4]	12.2%[4]	14.5%[4]	14.5%[4]	16.1%
RoE (@12% CET)[1]	16.6%[4]	13.2%[4]	15.4%[4]	14.7%[4]	14.5%
Return on risk-weighted assets[1][3]	2.59%	2.30%	2.62%	2.57%	2.81%
Net Interest Margin[1]	0.84%	0.98%[2]	0.96%	0.93%	1.01%
Cost-Income Ratio[1]	23.1%	27.7%	24.6%	26.4%	27.1%
Assets and liquidity reserve[1]	7,799	6,302	6,691	6,293	7,577
Risk-weighted assets	2,100	1,842	2,031	1,785	2,325
Own issues and other liabilities[1]	2,404	2,860	2,847	3,367	3,725

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Number was restated as per the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2017, to reflect a change in the ratio's denominator from average total assets to average interest-earning assets.
3) Return calculated on the basis of net profit.
4) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation.. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.4%	14.2%	0.8
RoE (@12% CET)[1]	16.7%	16.6%	(0.1)

	As of and for the six-month period ended June 30, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	11.9%	12.2%	0.3
RoE (@12% CET)[1]	13.3%	13.2%	(0.1)

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	13.7%	14.5%	0.8
RoE (@12% CET)[1]	15.5%	15.4%	(0.1)

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment (in percent points)
		(unaudited)	
RoE[1]	14.3%	14.5%	0.2
RoE (@12% CET)[1]	14.8%	14.7%	(0.1)

Source: BAWAG Group's Financial Statements and Company information.

Corporate Center

	As of and for the six-month period ended June 30,		As of and for the financial years ended December 31,		
	2017	2016	2016	2015	2014[1]
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)		
Net interest income	(2.6)	10.4	(5.9)	34.1	15.5
Net fee and commission income	(1.4)	3.7	2.1	2.7	(6.1)
Core revenues	(4.0)	14.1	(3.8)	36.8	9.4
Operating income	3.3	39.1	52.8	79.8	26.0
Operating expenses	(23.5)	(16.5)	(35.4)	(42.1)	(23.5)
Total risk costs	(5.9)	(0.8)	(2.7)	(5.8)	(8.3)
Profit before tax	(35.7)	7.0	(8.7)	0.9	(34.1)
Net profit	(82.8)	46.1	4.5	(23.2)	(35.3)
Other assets	3,095	3,447	3,489	3,317	3,757
Risk-weighted assets	1,320	1,404	1,246	1,373	1,902
Equity[1]	3,348	3,224	3,134	2,956	2,619
Other liabilities[1]	2,039	2,854	2,748	2,625	1,722

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

Source: BAWAG Group's Financial Statements and Company information.

10.5 Explanation of Key Line Items

The following is an explanation of key line items included in the Company's consolidated financial statements.

10.5.1 Dividend Income

Dividend income comprises all dividends received from entities that are not consolidated.

10.5.2 Net Interest Income

Interest income consists primarily of interest income from loans and receivables, fixed income securities, variable rate securities and assets held for trading. Furthermore, regular income from equity investments, shares as well as fees and commissions similar to interest income are shown in this item. Interest income and interest expense also include premiums and discounts on securities and loans using the effective interest rate method and the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs). Also, the interest proportion of interest-earning derivatives, separated into income and expenses, is recognized in interest income and expense.

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Interest income and interest expense are recognized on an accrual basis.

10.5.3 Net Fee and Commission Income

This item consists mainly of income from and expenses for payment transfers, the lending business (mainly loan processing and loan account management fees) and the securities and custody business. Income and expenses are recognized on an accrual basis.

10.5.4 Gains and Losses on Financial Assets and Liabilities

This item consists mainly of the valuations and sales gains or losses on investments, sales gains and losses from NPLs and issued securities and the results from trading in securities and derivatives. Moreover, hedging inefficiencies and foreign exchange differences are shown within this line item.

10.5.5 Other Operating Income and Expenses

Other operating income and expenses reflects all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property. In addition, other operating income and expenses encompasses expenses for other taxes, income from the release of other provisions and the reimbursement of expenses to customers as well as consolidation results from business combinations. At the consolidated BAWAG Group level, the line item other operating income and expenses includes, in accordance with IFRS, certain regulatory charges (bank levy, the contributions to the DGS and to the Single Resolution Fund ("**SRF**")). These regulatory charges are listed as a separate line item at the segment level and are, therefore, not included in the line item other operating income and expenses at the segment level. These regulatory charges are also not included in the line item operating expenses for BAWAG Group as shown in "*10.4.3 Summary of Key Financials and Key Performance Indicators for BAWAG Group*".

10.5.6 Administrative Expenses

Administrative expenses represent personnel and other administrative expenses accrued in the reporting period.

10.5.7 Depreciation and Amortization on Tangible and Intangible Non-Current Assets

This item consists mainly of depreciation of property, plant, equipment and investment properties as well as amortization of software and other intangible assets and customer relationships.

10.5.8 Regulatory Charges

Regulatory charges comprise expenses for the SRF and the DGS as well as supervisory charges and the bank levy.

10.5.9 Risk Costs

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

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill and non-consolidated equity investments.

10.5.10 Share of the Profit or Loss of Associates Accounted for Using the Equity Method

The profit or loss reported in this item contains BAWAG Group's proportionate shares of its minority interests in BAWAG P.S.K. Versicherung AG (stake of 25.00% plus one share) and PSA Payment Services Austria GmbH (stake of 20.82%).

10.5.11 Income Taxes

Income taxes consist of current income taxes and deferred income taxes.

10.6 Results of Operations

10.6.1 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016

BAWAG Group:

	For the six-month periods ended June 30,	
	2017	2016
	(unaudited) (in € million)	
Interest income	548.9	528.6[1)]
Interest expense	(160.3)	(154.3)
Dividend Income	6.8	2.0
Net interest income	**395.4**	**376.3**[1)]
Fee and commission income	142.8	140.8
Fee and commission expense	(36.7)	(37.8)
Net fee and commission income	**106.1**	**103.0**
Core revenues	**501.5**	**479.3**[1)]
Gains and losses on financial assets and liabilities	17.3	22.6[1)]
Other operating income and expenses	(24.6)	(29.8)
thereof regulatory charges	(27.1)	(33.1)
Administrative expenses	(199.6)	(197.2)
thereof regulatory charges	(1.03)	(0.93)
Depreciation and amortization on tangible and intangible non-current assets	(19.1)	(18.9)
Risk costs	(26.7)	(15.9)
Share of the profit or loss of associates accounted for using the equity method	1.8	4.3
Profit before tax	**250.6**	**244.4**
Income taxes	(47.1)	39.3
Profit after tax	**203.5**	**283.7**
Thereof attributable to non-controlling interests	0.0	0.2
Thereof attributable to owners of the parent	**203.5**	**283.5**

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial assets and liabilities in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.

Source: BAWAG Group's Financial Statements and Company information.

The segments in detail:

	BAWAG P.S.K. Retail		easygroup		DACH Corporates & Public Sector		International Business		Treasury Services & Markets		Corporate Center		Total	
	For the six-month periods ended June 30,													
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	(unaudited) (in € million)													
Net interest income	197.5	169.4	78.3	60.2[1)]	31.9	40.3	65.4	67.8	24.9	28.2	(2.6)	10.4	395.4	376.3[1)]
Net fee and commission income	82.3	74.6	5.4	4.6	19.8	20.1	0.0	0.0	0.0	0.0	(1.4)	3.7	106.1	103.0
Core revenues	**279.8**	**244.0**	**83.7**	**64.8**[1)]	**51.7**	**60.4**	**65.4**	**67.8**	**24.9**	**28.2**	**(4.0)**	**14.1**	**501.5**	**479.3**[1)]
Gains and losses on financial instruments	0.8	0.8	0.0	0.0[1)]	1.7	(0.1)	(0.5)	(1.7)	9.8	0.7	5.5	22.9	17.3	22.6[1)]
Other operating income and expenses	1.1	1.0	(0.5)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	1.8	2.1	2.4	3.2
Operating income	**281.7**	**245.8**	**83.2**	**64.9**	**53.4**	**60.3**	**64.9**	**66.1**	**34.7**	**28.9**	**3.3**	**39.1**	**521.2**	**505.1**
Operating expenses	**(134.4)**	**(136.0)**	**(15.8)**	**(15.7)**	**(20.9)**	**(25.7)**	**(15.0)**	**(13.3)**	**(8.0)**	**(8.0)**	**(23.5)**	**(16.5)**	**(217.6)**	**(215.2)**
Regulatory charges	(14.3)	(12.4)	(2.4)	(2.5)	–	–	–	–	–	–	(11.4)	(19.1)	(28.1)	(34.0)
Total risk costs	(16.5)	(17.3)	5.7	(2.1)	5.5	1.4	(15.5)	3.0	0.0	0.0	(5.9)	(0.8)[2)]	(26.7)	(15.9)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	–	–	–	–	1.8	4.3	1.8	4.3
Profit before tax	**116.5**	**80.1**	**70.7**	**44.6**	**38.0**	**36.0**	**34.4**	**55.8**	**26.7**	**20.9**	**(35.7)**	**7.0**	**250.6**	**244.4**
Income taxes	–	–	–	–	–	–	–	–	–	–	(47.1)	39.3	(47.1)	39.3
Profit after tax	**116.5**	**80.1**	**70.7**	**44.6**	**38.0**	**36.0**	**34.4**	**55.8**	**26.7**	**20.9**	**(82.8)**	**46.2**	**203.5**	**283.7**
Non-controlling interests	–	–	–	–	–	–	–	–	–	–	0.0	(0.2)	0.0	(0.2)
Net profit	**116.5**	**80.1**	**70.7**	**44.6**	**38.0**	**36.0**	**34.4**	**55.8**	**26.7**	**20.9**	**(82.8)**	**46.1**	**203.5**	**283.5**

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial instruments in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.

2) Number differs from the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016, due to rounding differences.

Source: BAWAG Group's Financial Statements and Company information.

10.6.1.1 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for BAWAG Group

10.6.1.1.1 Interest Income for BAWAG Group

Interest income increased to € 548.9 million in the six-month period ended June 30, 2017, an increase of € 20.3 million, or 3.8%, compared to € 528.6 million in the six-month period ended June 30, 2016. The increase was mainly driven by a combination of organic growth of consumer loan volume and the acquisitions of start:bausparkasse and IMMO-BANK in December 2016, which contributed 500,000 new customers to the BAWAG P.S.K. Retail segment. Furthermore, interest income generated from the French Mortgage Loan Portfolio acquired in December 2016 amounted to € 30.3 million in the six-month period ended June 30, 2017. This more than compensated for the decrease in interest income generated from the U.K. Mortgage Loan Portfolio acquired in December 2015 (which will gradually be run-down) from € 47.7 million in the six-month period ended June 30, 2016, to € 31.7 million in the in the six-month period ended June 30, 2017.

In addition to the substantial increase in consumer loan volume, consumer lending experienced lower pressure on margins than other lending sectors and, therefore, slightly increased average yields on consumer loans from 5.03% in the six-month period ended June 30, 2016, to 5.37% in the six-month period ended June 30, 2017. This compensated for the decline in interest income in the DACH Corporates & Public Sector segment as a result of lower yields on newly-originated loans due to higher pressure on margins as well as lower yields on existing loans as DACH Corporates & Public Sector's portfolio primarily consists of loans with variable interest rates, which continued to decline.

10.6.1.1.2 Interest Expense for BAWAG Group

Interest expense increased to € 160.3 million in the six-month period ended June 30, 2017, an increase of € 6.0 million, or 3.9%, from € 154.3 million in the six-month period ended June 30, 2016. The increase was primarily driven by an increase in customer deposit volumes, largely as a result of the acquisitions of start:bausparkasse and IMMO-BANK in December 2016. This was partially offset by the continuing decline in interest rates, which allowed BAWAG Group to further reduce interest rates on customer deposits. Average yields on customer deposits for the BAWAG P.S.K. Retail segment slightly decreased from 0.26% in the six-month period ended June 2016, to 0.23% in the six-month period ended June 2017, and average yields on customer deposits for the easygroup segment decreased from 0.42% in the six-month period ended June 2016, to 0.14% in the six-month period ended June 2017.

Interest expense further increased due to the issue of the Feldspar 2016-1 PLC residential mortgage backed securities in November 2016 in the aggregate amount of £ 500 million with a coupon of 3-month £ LIBOR plus 70 basis points p.a. and a weighted-average life (WAL) of 3.04 years, the issue of a public sector covered bond in the notional amount of € 500 million with a ten year tenor and a coupon of 0.75% p.a. in January 2017, and additional issues by IMMO-BANK.

10.6.1.1.3 Dividend Income for BAWAG Group

Dividend income increased to € 6.8 million in the six-month period ended June 30, 2017, an increase of € 4.8 million, or 240%, from € 2.0 million in the six-month period ended June 30, 2016, primarily due to distributions on BAWAG Group's participation in WBG Wohnen und Bauen Gesellschaft mbH Wien (BWS group).

10.6.1.1.4 Net Interest Income for BAWAG Group

Net interest income increased to € 395.4 million in the six-month period ended June 30, 2017, an increase of € 19.1 million, or 5.1%, from € 376.3 million in the six-month period ended June 30, 2016. Net interest income is primarily derived from the BAWAG P.S.K. Retail segment, which contributed € 197.5 million, or nearly half the net interest income of BAWAG Group, followed by the easygroup segment with € 78.3 million, International Business with € 65.4 million, DACH Corporates & Public Sector with € 31.9 million and Treasury Services & Markets € 24.9 million, whereas the Corporate Center segment recognized net interest income in the amount of € (2.6) million in the six-month period ended June 30, 2017. Net interest income of the Corporate Center segment was affected by liquidity funds transfer pricing (FTP) primarily due to higher deposit volumes which could not be offset by higher yields on loans. In addition, negative pull to par effects from fair value adjustments with respect to loans forming part of the acquired assets of start:bausparkasse and IMMO-BANK were allocated to the Corporate Center segment.

10.6.1.1.5 Fee and Commission Income for BAWAG Group

Fee and commission income remained largely stable at € 142.8 million in the six-month period ended June 30, 2017, a slight increase of € 2.0 million, or 1.4%, from € 140.8 million in the six-month period ended June 30, 2016. This slight increase was primarily driven by fee and commission income generated following the acquisition of start:bausparkasse, from current accounts and higher sales of protection insurances (*KONZEPT : SCHUTZ*) in the BAWAG P.S.K. Retail segment.

10.6.1.1.6 Fee and Commission Expense for BAWAG Group

Fee and commission expense amounted to € 36.7 million in the six-month period ended June 30, 2017, a slight decrease of € 1.1 million, or 2.9%, from € 37.8 million in the six-month period ended June 30, 2016.

The slight decrease was mainly driven by decreases of € 0.7 million in fee and commission expenses for payment transfers (down 3.7% from the six-month period ended June 30, 2016) and of € 0.4 million in other fee and commission expenses (down 2.1% from the six-month period ended June 30, 2016).

10.6.1.1.7 Net Fee and Commission Income for BAWAG Group

Net fee and commission income increased to € 106.1 million in the six-month period ended June 30, 2017, an increase of € 3.1 million, or 3.0%, from € 103.0 million in the six-month period ended June 30, 2016. More than two thirds of the net fee and commission income, € 82.3 million, was derived from the BAWAG P.S.K. Retail segment, whereas the DACH Corporates & Public Sector segment and easygroup accounted for € 19.8 million and € 5.4 million, respectively. The International Business and Corporate Center segments, however, recognized net fee and commission expenses in the amount of € 0.0 million and € (1.4) million, respectively, in the six-month period ended June 30, 2017.

The overall increase was due to increases in the BAWAG P.S.K. Retail and easygroup segments of € 7.7 million (up 10.3% from the six-month period ended June 30, 2016) and € 0.8 million (up 17.4% from the six-month period ended June 30, 2016), respectively, while net fee and commission income for the Corporate Center and DACH Corporates & Public Sector segments decreased by € 5.1 million and € 0.3 million (down 1.5% from the six-month period ended June 30, 2016), respectively.

10.6.1.1.8 Core Revenues for BAWAG Group

Core revenues amounted to € 501.5 million in the six-month period ended June 30, 2017, an increase of € 22.2 million, or 4.6%, from € 479.3 million in the six-month period ended June 30, 2016. € 279.8 million, more than half of the total amount of core revenues, was derived from the BAWAG P.S.K. Retail segment, while the easygroup, International Business, DACH Corporates & Public Sector as well as Treasury Services & Markets segments contributed € 83.7 million, € 65.4 million, € 51.7 million and € 24.9 million, respectively. The Corporate Center segment incurred core revenues in the amount of € (4.0) million.

The overall increase was driven by increases in the BAWAG P.S.K. Retail and easygroup segments of € 35.8 million (or 14.7%) and € 18.9 (or 29.2%), respectively, compared to the six-month period ended June 30, 2017. The increase in core revenues in the BAWAK P.S.K. Retail segment was largely due to the combination of organic growth of the consumer loan volume and the acquisitions of start:bausparkasse and IMMO-BANK in December 2016. This, together with the increase in core revenues in the easygroup segment stemming from the acquisition of the French Mortgage Loan Portfolio in December 2016, more than offset decreases in the remaining segments: € 18.1 million in the Corporate Center segment primarily because of lower net interest income caused by the market environment, bond issues and liquidity funds transfer pricing (FTP), € 8.7 million in the DACH Corporates & Public Sector segment (down 14.4% from the six-month period ended June 30, 2016), € 2.4 million in the International Business segment (down 3.5% from the six-month period ended June 30, 2016) and € 3.3 million in the Treasury Services & Markets segment (down 11.7% from the six-month period ended June 30, 2016).

10.6.1.1.9 Gains and Losses on Financial Assets and Liabilities for BAWAG Group

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sales of BAWAG Group's investments, the sales of subsidiaries, issued securities, sales gains and losses from NPLs and derivative transactions with customers.

Gains and losses on financial assets and liabilities decreased to € 17.3 million in the six-month period ended June 30, 2017, a decrease of € 5.3 million, or 23.5%, from € 22.6 million in the six-month period ended June 30, 2016. The gains and losses primarily derived from the Treasury Services & Markets and Corporate Center segments, which accounted for net gains on financial assets and liabilities in the amount of € 9.8 million and € 5.5 million, respectively. DACH Corporates & Public Sector and BAWAG P.S.K. Retail contributed gains of € 1.7 million and € 0.8 million, respectively, whereas the International Business segment incurred losses of € 0.5 million.

This overall decline was primarily driven by losses in the amount of € 44.4 million from financial assets and liabilities held for trading in the six-month period ended June 30, 2017, an increase of € 38.8 million from losses in the amount of € 5.6 million incurred in the six-month period ended June 30, 2016. These losses were mainly caused by interest rate derivatives, without taking into account any compensation effects (gains) from the hedged items.

In addition, realized gains on financial assets and liabilities not measured at fair value through profit or loss decreased to € 22.7 million in the six-month period ended June 30, 2017, a decrease of € 7.0 million, or 23.6%, from € 29.7 million in the six-month period ended June 30, 2016, predominantly relating to lower profits from the sale of securities and subsidiaries in the six-month period ended June 30, 2017. In the six-month period ended June 30, 2016, BAWAG Group sold its participations in BAWAG Malta Bank Limited and Visa Europe Limited resulting in gains of € 4.2 million and € 4.5 million, respectively. In addition, BAWAG Group received additional payments of € 1.4 million and € 0.9 million, respectively, for its former participations in ATV Privat-TV GmbH & Co. KG and Österreichische Lotterien GmbH in the six-month period ended June 30, 2016. In the six-month period ended June 30, 2017, BAWAG Group sold its participation in WBG Wohnen und Bauen Gesellschaft mbH for € 0.5 million. Losses from exchange rate differences amounted to € 2.1 million, a decrease of € 2.7 million, or 56.6%, from losses in the amount of € 4.8 million incurred in the six-month period ended June 30, 2016.

These declines were partially offset by an increase in gains and losses on financial assets and liabilities designated at fair value through profit or loss, which amounted to € 37.2 million in the six-month period ended June 30. 2017, an increase of € 31.9 million, or 601.9%, from € 5.3 million in the six-month period ended June 30, 2016. Gains and losses from fair value hedge accounting remained largely stable at € 4.0 million, a slight increase of € 0.1 million (2.6%) from € 3.9 million in the six-month period ended June 30, 2016.

This development was not consistently reflected across the segments. While the Treasury Services & Markets and DACH Corporates &Public Sector segments recorded increases of € 9.1 million (up from € 0.7 million in the six-month period ended June 30, 2016) and € 1.8 million (up from € (0.1) million in the six-month period ended June 30, 2016), respectively, and the International Business segment reduced losses by € 1.2 million (from € (1.7) million in the six-month period ended June 30, 2016, to € (0.5) million in the six-month period ended June 30, 2017). The Corporate Center segment recorded a decrease of € 17.4 million (down 76% from € 22.9 million in the six-month period ended June 30, 2016). This decrease was mainly due to gains from the sale of subsidiaries recorded in the six-month period ended June 30, 2016, with the participations in BAWAG Malta Bank Limited and Visa Europe Limited resulting in gains of € 4.2 million and € 4.5 million, respectively.

10.6.1.1.10 Other Operating Income and Expenses for BAWAG Group

Other operating income and expenses decreased to € (24.6) million in the six-month period ended June 30, 2017, a decrease of € 5.2 million, or 17.5%, from € (29.8) million in the six-month period ended June 30, 2016. This decrease was mainly driven by lower expenses on regulatory charges in the amount of € 27.1 (down 18.1% from € 33.1 million the six-month period ended June 30, 2016). Apart from this, other income and expenses remained overall relatively stable.

10.6.1.1.11 Administrative Expenses for BAWAG Group

Administrative expenses remained fairly stable at € 199.6 million in the six-month period ended June 30, 2017, a slight increase of € 2.4 million, or 1.2%, from € 197.2 million in the six-month period ended June 30, 2016.

Staff costs increased by € 12.0 million (or 10.8%) compared to the six-month period ended June 30, 2016, mainly due to the acquisition of start:bausparkasse and IMMO-BANK in December 2016. Such increase was partially offset by a decrease in other administrative expenses of € 5.3 million (or 7.2%) compared to the six-month period ended June 30, 2016, and a decrease in restructuring and other one-off expenses of € 4.3 million (or 34.1%) compared to the six-month period ended June 30, 2016. The decrease in other administrative expenses and restructuring and other one-off expenses was largely due to the integration of subsidiaries as well as reduced expenses for IT, infrastructure, procurement and marketing.

10.6.1.1.12 Depreciation and Amortization on Tangible and Intangible Non-Current Assets for BAWAG Group

Depreciation and amortization on tangible and intangible non-current assets remained largely stable at € 19.1 million in the six-month period ended June 30, 2017, a slight increase of € 0.2 million, or 1.1%, from € 18.9 million in the six-month period ended June 30, 2016.

10.6.1.1.13 Risk Costs for BAWAG Group

Risk costs increased to € 26.7 million in the six-month period ended June 30, 2017, an increase of € 10.8 million, or 67.9%, from € 15.9 million in the six-month period ended June 30, 2016. Risk costs were primarily allocated to the BAWAG P.S.K. Retail segment with € 16.5 million (down by € 0.8 million), followed by the International Business and Corporate Center segments with € 15.5 million (up by € 18.5 million) and € 5.9 million (up by € 5.1 million), respectively. The easygroup and DACH Corporates & Public Sector segments recorded positive amounts of € 5.7 million (from € (2.1) million in the six-month period ended June 30, 2016) and € 5.5 million (from € 1.4 million in the six-month period ended June 30, 2016), respectively.

The overall increase in risk costs predominantly resulted from an increase in the International Business segment of € 18.5 million (up from positive € 3.0 million in the six-month period ended June 30, 2016). This increase was driven by loan loss provisions recorded by the International Business segment with respect to two clients in the oil industry that were adversely affected by declining oil prices evidencing the International Business segment's risk policy. The Corporate Center segment accounted for an increase of € 5.1 million (up from € 0.8 million in the six-month period ended June 30, 2016), mainly due to reserves for potential operational losses as well as future settlements of legal disputes. This was only partially offset by the developments in the easygroup, DACH Corporates & Public Sector and BAWAG P.S.K. Retail segments.

10.6.1.1.14 Share of the Profit or Loss of Associates Accounted for Using the Equity Method for BAWAG Group

Share of the profit or loss of associates accounted for using the equity method decreased to € 1.8 million in the six-month period ended June 30, 2017, a decrease of € 2.5 million, or 58.1%, from € 4.3 million in the six-month period ended June 30, 2016, mainly due to the sale of VISA Europe Limited in the financial year 2016.

10.6.1.1.15 Profit before Tax for BAWAG Group

Profit before tax amounted to € 250.6 million in the six-month period ended June 30, 2017, an increase of € 6.2 million, or 2.5%, from € 244.4 million in the six-month period ended June 30, 2016.

This development was driven by increases in the BAWAG P.S.K. Retail, easygroup, Treasury Services & Markets and DACH Corporates & Public Sector segments by € 36.4 million (up 45.4% from the six-month period ended June 30, 2016), € 26.1 million (up 58.5% from the six-month period ended June 30, 2016), € 5.8 million (up 27.8% from the six-month period ended June 30, 2016) and € 2.0 million (up 5.6% from the six-month period ended June 30, 2016), respectively, which offset decreases in the remaining segments. The Corporate Center segment suffered a decrease of € 42.7 million (down from € 7.0 million in the six-month period ended June 30, 2016, to € (35.7) million in the six-month period ended June 30, 2017) and International Business of € 21.4 million (down 38.4% from the six-month period ended June 30, 2016).

10.6.1.1.16 Income Taxes for BAWAG Group

Income taxes amounted to € 47.1 million in the six-month period ended June 30, 2017, a decrease of € 86.4 million from a benefit in the amount of € 39.3 million in the six-month period ended June 30, 2016. A one-time positive tax effect in the six-month period ended June 30, 2016, which was mainly due to recognition of deferred tax assets on tax loss carryforwards, did not repeat in the six-month period ended June 30, 2017. This line item is allocated to the Corporate Center segment.

10.6.1.1.17 Profit after Tax for BAWAG Group

Profit after tax amounted to € 203.5 million in the six-month period ended June 30, 2017, a decrease of € 80.2 million, or 28.3%, from € 283.7 million in the six-month period ended June 30, 2016. Profit after tax for BAWAG Group in the six-month period ended June 30, 2016, was significantly impacted by a one-time net tax benefit booked during that period.

10.6.1.1.18 Non-controlling Interests for BAWAG Group

The profit after tax attributable to non-controlling interests increased to € 0.0 million in the six-month period ended June 30, 2017, an increase of € 0.2 million from € (0.2) million in the six-month period ended June 30, 2016. This line item is allocated to the Corporate Center segment.

10.6.1.1.19 Net Profit for BAWAG Group

Net profit decreased to € 203.5 million in the six-month period ended June 30, 2017, a decrease of € 80 million, or 28.2%, from € 283.5 million in the six-month period ended June 30, 2016. Net profit for BAWAG Group in the six-month period ended June 30, 2016, was significantly impacted by a one-time net tax benefit booked during that period.

10.6.1.2 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for the BAWAG P.S.K. Retail Segment

	For the six-month periods ended June 30,	
	2017	**2016**
	(unaudited) (in € million)	
Net interest income	197.5	169.4
Net fee and commission income	82.3	74.6
Core revenues	**279.8**	**244.0**
Gains and losses on financial instruments	0.8	0.8
Other operating income and expenses	1.1	1.0
Operating income	**281.7**	**245.8**
Operating expenses	**(134.4)**	**(136.0)**
Regulatory charges	(14.3)	(12.4)
Total risk costs	(16.5)	(17.3)
Profit before tax	**116.5**	**80.1**
Income taxes	–	–
Profit after tax	**116.5**	**80.1**
Non-controlling interests	–	–
Net profit	**116.5**	**80.1**

Source: BAWAG Group's Financial Statements.

10.6.1.2.1 Net Interest Income for the BAWAG P.S.K. Retail Segment

Net interest income increased to € 197.5 million in the six-month period ended June 30, 2017, an increase of € 28.1 million, or 16.6%, compared to € 169.4 million in the six-month period ended June 30, 2016.

Interest income increased due to a combination of organic growth of consumer loan volumes and the acquisitions of start:bausparkasse and IMMO-BANK which were completed in December 2016 and contributed 500,000 new customers to the BAWAG P.S.K. Retail segment. In addition to the increase in consumer loan volume (up 6% from the six-month period ended June 30, 2016), the BAWAG P.S.K. Retail segment experienced lower pressure on margins than other lending sectors and, therefore, average yields on consumer loans in the BAWAG P.S.K. Retail segment increased slightly from 2.16% in the six-month period ended June 30, 2016, to 2.25% in the six-month period ended June 30, 2017.

On the expense side, the acquisition of start:bausparkasse and IMMO-BANK led to a large increase of the volume of BAWAG P.S.K. Retail's interest-earning liabilities. Despite this increase in deposit volume, interest expense remained largely stable due to a reduction of average yields on customer deposits from 0.26% in the six-month period ended June 30, 2016, to 0.23% in the six-month period ended June 30, 2017.

Overall, net interest income increased primarily due to the combination of increased consumer loan volume and yields and the slight reduction of yields paid on deposits.

10.6.1.2.2 Net Fee and Commission Income for the BAWAG P.S.K. Retail Segment

Net fee and commission income increased to € 82.3 million in the six-month period ended June 30, 2017, an increase of € 7.7 million, or 10.3%, from € 74.6 million in the six-month period ended June 30, 2016. This increase was primarily due to additional fee and commission income in the amount of € 3.6 million following the acquisition of start:bausparkasse and an increase in fees and commissions generated from current accounts and higher sales of protection insurances (*KONZEPT : SCHUTZ*), which more than compensated for lower commissions from sales in other insurances. Lower commissions paid to Austrian Post also contributed to the increase.

10.6.1.2.3 Core Revenues for the BAWAG P.S.K. Retail Segment

Core revenues increased to € 279.8 million in the six-month period ended June 30, 2017, an increase of € 35.8 million, or 14.7%, from € 244.0 million in the six-month period ended June 30, 2016, driven by increases of € 28.1 million and € 7.7 million in net interest income and net fee and commission income, respectively.

10.6.1.2.4 Gains and Losses on Financial Instruments for the BAWAG P.S.K. Retail Segment

Gains and losses on financial instruments remained stable at € 0.8 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.2.5 Other Operating Income and Expenses for the BAWAG P.S.K. Retail Segment

Other operating income and expenses remained fairly stable at € 1.1 million in the six-month period ended June 30, 2017, an increase of € 0.1 million, or 10.0%, from € 1.0 million in the six-month period ended June 30, 2016.

10.6.1.2.6 Operating Income for the BAWAG P.S.K. Retail Segment

Operating income increased to € 281.7 million in the six-month period ended June 30, 2017, an increase of € 35.9 million, or 14.6%, compared to € 245.8 million in the six-month period ended June 30, 2016. This was primarily due to an increase in core revenues (up by € 35.8 million).

10.6.1.2.7 Operating Expenses for the BAWAG P.S.K. Retail Segment

Operating expenses slightly decreased to € 134.4 million in the six-month period ended June 30, 2017, a decrease of € 1.6 million, or 1.2%, from € 136.0 million in the six-month period ended June 30, 2016. The slight decrease was mainly due to the reductions in BAWAG P.S.K. Retail's branch network.

10.6.1.2.8 Regulatory Charges for the BAWAG P.S.K. Retail Segment

Regulatory charges amounted to € 14.3 million in the six-month period ended June 30, 2017, an increase of € 1.9 million, or 15.3%, from € 12.4 million in the six-month period ended June 30, 2016, due to heightened contributions to the deposit guarantee scheme resulting from increased deposits mainly as a result of the acquisitions of start:bausparkasse and IMMO-BANK. The deposit guarantee scheme fees paid in the six-month period ended June 30, 2017, reflect all fees due for the financial year 2017.

10.6.1.2.9 Total Risk Costs for the BAWAG P.S.K. Retail Segment

Total risk costs amounted to € 16.5 million in the six-month period ended June 30, 2017, a slight decrease of € 0.8 million, or 4.6%, from € 17.3 million in the six-month period ended June 30, 2016. Despite higher volumes in the BAWAG P.S.K. Retail's core consumer and mortgage loan products, as a result of organic growth and the acquisitions of start:bausparkasse and IMMO-BANK, BAWAG P.S.K. Retail's risk policy led to a slight decrease in total risk costs.

10.6.1.2.10 Profit before Tax/Net Profit for the BAWAG P.S.K. Retail Segment

Net profit increased to € 116.5 million in the six-month period ended June 30, 2017, an increase of € 36.4 million, or 45.4%, from € 80.1 million in the six-month period ended June 30, 2016. Higher core revenues (up 14.7%) and the slight decrease in operating expenses (down 1.2%) more than offset the increase in regulatory charges primarily stemming from the increase in deposit volume.

10.6.1.3 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for the easygroup Segment

	For the six-month periods ended June 30,	
	2017	**2016**
	(unaudited) (in € million)	
Net interest income	78.3	60.2[1)]
Net fee and commission income	5.4	4.6
Core revenues	**83.7**	**64.8**[1)]
Gains and losses on financial instruments	0.0	0.0[1)]
Other operating income and expenses	(0.5)	0.1
Operating income	**83.2**	**64.9**
Operating expenses	**(15.8)**	**(15.7)**
Regulatory charges	(2.4)	(2.5)
Total risk costs	5.7	(2.1)
Profit before tax	**70.7**	**44.6**
Income taxes	–	–
Profit after tax	**70.7**	**44.6**
Non-controlling interests	–	–
Net profit	**70.7**	**44.6**

1) Interest income for the six-month period ended June 30, 2016, as shown in the above table includes the amortization of day one profits (i.e., the difference between fair value and purchase price that is booked as deferred acquisition costs), which were included in gains and losses on financial instruments in the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016. This adjustment was made in accordance with applicable accounting rules as day one profit will be amortized over the lifetime of the acquired loans. Accordingly, BAWAG Group considers this regular amortization as similar to interest income and the amortization reflected as interest income in its financial statements.

Source: BAWAG Group's Financial Statements.

10.6.1.3.1 Net Interest Income for the easygroup Segment

Net interest income increased to € 78.3 million in the six-month period ended June 30, 2017, an increase of € 18.1 million, or 30.1%, compared to € 60.2 million in the six-month period ended June 30, 2016.

The increase in net interest income was primarily driven by the acquisition of the French Mortgage Loan Portfolio in December 2016. Interest income generated from the French Mortgage Loan Portfolio amounted to € 30.3 million in the six-month period ended June 30, 2017, which more than compensated for the decrease in interest income generated from the U.K. Mortgage Loan Portfolio acquired in December 2015 (which will gradually be run-down) from € 47.7 million in the in the six-month period ended June 30, 2016, to € 31.7 million in the in the six-month period ended June 30, 2017. While interest income from easygroup's remaining interest-earning assets remained largely stable, easybank generated double-digit organic growth due to its performance in its core products.

Downward pricing for variable savings and current account deposits led to declining interest expense both in absolute terms (down by € 4.0 million) and with respect to yields (down to 0.14% in the six-month period ended June 30, 2017, from 0.42% in the six-month period ended June 30, 2016), despite an increase in customer deposit volume (up by € 88.0 million to total customer deposits in the amount of € 3.8 billion).

10.6.1.3.2 Net Fee and Commission Income for the easygroup Segment

Net fee and commission income increased to € 5.4 million in the six-month period ended June 30, 2017, an increase of € 0.8 million, or 17.4%, from € 4.6 million in the six-month period ended June 30, 2016. Increased income from fees and commissions was generated from easybank's core products and partner cooperations.

10.6.1.3.3 Core Revenues for the easygroup Segment

Core revenues increased to € 83.7 million in the six-month period ended June 30, 2017, an increase of € 18.9 million, or 29.2%, from € 64.8 million in the six-month period ended June 30, 2016. This was driven by increases in net interest income and net fee and commission income.

10.6.1.3.4 Gains and Losses on Financial Instruments for the easygroup Segment

Gains and losses on financial instruments remained stable at € 0.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.3.5 Other Operating Income and Expenses for the easygroup Segment

Other operating income and expenses amounted to € (0.5) million in the six-month period ended June 30, 2017, a decrease of € 0.6 million from € 0.1 million in the six-month period ended June 30, 2016.

10.6.1.3.6 Operating Income for the easygroup Segment

Operating income increased to € 83.2 million in the six-month period ended June 30, 2017, an increase of € 18.3 million, or 28.2%, from € 64.9 million in the six-month period ended June 30, 2016, driven by the increase in core revenues.

10.6.1.3.7 Operating Expenses for the easygroup Segment

Operating expenses remained fairly stable at € 15.8 million in the six-month period ended June 30, 2017, a slight increase of € 0.1 million, or 0.6%, compared to € 15.7 million in the six-month period ended June 30, 2016.

10.6.1.3.8 Regulatory Charges for the easygroup Segment

Regulatory charges remained fairly stable at € 2.4 million in the six-month period ended June 30, 2017, a slight decrease of € 0.1 million, or 4%, compared to € 2.5 million in the six-month period ended June 30, 2016.

10.6.1.3.9 Total Risk Costs for the easygroup Segment

Total risk costs showed a positive income of € 5.7 million in the six-month period ended June 30, 2017, an increase of € 7.8 million compared to € (2.1) million in the six-month period ended June 30, 2016. This was mainly driven by the fact that provisions for incurred but not reported ("**IBNR**") claims for the newly acquired French and U.K. Mortgage Loan Portfolios had originally been set at a conservative level, taking into account that easygroup had to develop relevant internal behavior scorings which ensure a timely monitoring of deteriorations in the creditworthiness of the borrowers. As these scoring models were implemented internally, the IBNR parameters were adjusted to BAWAG Group's standard for retail business, and a part of the provisions for IBNR claims were released.

10.6.1.3.10 Profit before Tax/Net Profit for the easygroup Segment

Net profit increased to € 70.7 million in the six-month period ended June 30, 2017, an increase of € 26.1 million, or 58.5%, from € 44.6 million in the six-month period ended June 30, 2016. The underlying performance reflects the acquisition of the French Mortgage Loan Portfolio in December 2016, which more than offset the decrease in net interest income generated from the U.K. Mortgage Loan Portfolio acquired in December 2015, and the double-digit organic growth in easybank.

10.6.1.4 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for the DACH Corporates & Public Sector Segment

	For the six-month periods ended June 30,	
	2017	**2016**
	(unaudited) (in € million)	
Net interest income	31.9	40.3
Net fee and commission income	19.8	20.1
Core revenues	**51.7**	**60.4**
Gains and losses on financial instruments	1.7	(0.1)
Other operating income and expenses	0.0	0.0
Operating income	**53.4**	**60.3**
Operating expenses	**(20.9)**	**(25.7)**
Total risk costs	5.5	1.4
Profit before tax	**38.0**	**36.0**
Income taxes	–	–
Profit after tax	**38.0**	**36.0**
Non-controlling interests	–	–
Net profit	**38.0**	**36.0**

Source: BAWAG Group's Financial Statements.

10.6.1.4.1 Net Interest Income for the DACH Corporates & Public Sector Segment

Net interest income decreased to € 31.9 million in the six-month period ended June 30, 2017, a decrease of € 8.4 million, or 20.8%, compared to € 40.3 million in the six-month period ended June 30, 2016.

Interest income decreased due to the continuing low-interest rate environment and margin pressure, as the majority of loans in the DACH Corporates & Public Sector segment's portfolio have variable interest rates, as well as the prepayment of a commercial real estate loan which lead to a release of deferred acquisition cost in the amount of € 9.0 million. This could not be offset by additional € 5.0 million in interest income generated from commercial real estate loans of IMMO-BANK which were allocated to the DACH Corporates & Public Sector segment following the acquisition in December 2016.

Lower interest expense in the six-month period ended June 30, 2017, (down by € 2.0 million compared to the six-month period ended June 30, 2016) driven by a strict pricing discipline with respect to term deposits and current accounts partially offset the decrease in interest income.

10.6.1.4.2 Net Fee and Commission Income for the DACH Corporates & Public Sector Segment

Net fee and commission income remained fairly stable at € 19.8 million in the six-month period ended June 30, 2017, a slight decrease of € 0.3 million, or 1.5%, from € 20.1 million in the six-month period ended June 30, 2016.

10.6.1.4.3 Core Revenues for the DACH Corporates & Public Sector Segment

Core revenues decreased to € 51.7 million in the six-month period ended June 30, 2017, a decrease of € 8.7 million, or 14.4%, from € 60.4 million in the six-month period ended June 30, 2016, which was driven by decreases of € 8.4 million and € 0.3 million in net interest income and net fee and commission income, respectively.

10.6.1.4.4 Gains and Losses on Financial Instruments for the DACH Corporates & Public Sector Segment

Gains and losses on financial instruments showed a positive income of € 1.7 million in the six-month period ended June 30, 2017, an increase of € 1.8 million from € (0.1) million in the six-month period ended June 30, 2016, due to the positive impact of the sale of two bonds in the six-month period ended June 30, 2017.

10.6.1.4.5 Other Operating Income and Expenses for the DACH Corporates & Public Sector Segment

Other operating income and expenses remained stable at € 0.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.4.6 Operating Income for the DACH Corporates & Public Sector Segment

Operating income and expenses decreased to € 53.4 million in the six-month period ended June 30, 2017, a decrease of € 6.9 million, or 11.4%, from € 60.3 million in the six-month period ended June 30, 2016, due to a decrease in core revenues (down by € 8.7 million).

10.6.1.4.7 Operating Expenses for the DACH Corporates & Public Sector Segment

Operating expenses decreased to € 20.9 million in the six-month period ended June 30, 2017, a decrease of € 4.8 million, or 18.7%, from € 25.7 million in the six-month period ended June 30, 2016. The decrease in operating expenses was mainly due to headcount reductions and other cost savings in the sales, operations and risk management capacities in the DACH Corporates & Public Sector in light of reduced volumes in the current low margin environment.

10.6.1.4.8 Total Risk Costs for the DACH Corporates & Public Sector Segment

Total risk costs showed a positive income of € 5.5 million in the six-month period ended June 30, 2017, an increase of € 4.1 million, or 292.9%, from € 1.4 million in the six-month period ended June 30, 2016. This was driven by the release of provisions for customers whose economic condition improved.

10.6.1.4.9 Profit before Tax/Net Profit for the DACH Corporates & Public Sector Segment

Net profit increased to € 38.0 million in the six-month period ended June 30, 2017, an increase of € 2.0 million, or 5.6%, from € 36.0 million in the six-month period ended June 30, 2016.

10.6.1.5 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for the International Business Segment

	For the six-month periods ended June 30,	
	2017	**2016**
	(unaudited) **(in € million)**	
Net interest income	65.4	67.8
Net fee and commission income	0.0	0.0
Core revenues	**65.4**	**67.8**
Gains and losses on financial instruments	(0.5)	(1.7)
Other operating income and expenses	0.0	0.0
Operating income	**64.9**	**66.1**
Operating expenses	**(15.0)**	**(13.3)**
Total risk costs	(15.5)	3.0
Profit before tax	**34.4**	**55.8**
Income taxes	–	–
Profit after tax	**34.4**	**55.8**
Non-controlling interests	–	–
Net profit	**34.4**	**55.8**

Source: BAWAG Group's Financial Statements.

10.6.1.5.1 Net Interest Income for the International Business Segment

Net interest income remained relatively stable at € 65.4 million in the six-month period ended June 30, 2017, a decrease of € 2.4 million, or 3.5%, compared to € 67.8 million in the six-month period ended June 30, 2016. Loan volumes and yields as well as interest expense remained largely stable.

10.6.1.5.2 Net Fee and Commission Income for the International Business Segment

There was no net fee and commission income in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.5.3 Core Revenues for the International Business Segment

Core revenues remained relatively stable at € 65.4 million in the six-month period ended June 30, 2017, a slight decrease of € 2.4 million, or 3.5%, compared to € 67.8 million in the six-month period ended June 30, 2016, reflecting the corresponding decrease in net interest income.

10.6.1.5.4 Gains and Losses on Financial Instruments for the International Business Segment

Gains and losses on financial instruments amounted to € (0.5) million in the six-month period ended June 30, 2017, a reduction by € 1.2 million, or 70.6%, from € (1.7) million in the six-month period ended June 30, 2016. The reduction of losses was primarily driven by credit valuation adjustments and debt valuation adjustments and lower income from sales of bonds in the six-month period ended December 31, 2016.

10.6.1.5.5 Other Operating Income and Expenses for the International Business Segment

Other operating income and expenses remained stable at € 0.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.5.6 Operating Income for the International Business Segment

Operating income remained relatively stable at € 64.9 million in the six-month period ended June 30, 2017, a slight decrease of € 1.2 million, or 1.8%, from € 66.1 million in the six-month period ended June 30, 2016.

10.6.1.5.7 Operating Expenses for the International Business Segment

Operating expenses increased to € 15.0 million in the six-month period ended June 30, 2017, an increase of € 1.7 million, or 12.8%, from € 13.3 million in the six-month period ended June 30, 2016. This increase was caused by new hires and, consequently, higher personnel costs, to manage the growing portfolio of the International Business segment.

10.6.1.5.8 Total Risk Costs for the International Business Segment

Total risk costs increased to € 15.5 million in the six-month period ended June 30, 2017, an increase of € 18.5 million from the positive € 3.0 million in the six-month period ended June 30, 2016. The strong increase in total risk costs was mainly driven by loan loss provisions recorded by the International Business segment with respect to two clients in the oil industry which were adversely affected by declining oil prices.

10.6.1.5.9 Profit before Tax/Net Profit for the International Business Segment

Net profit amounted to € 34.4 million in the six-month period ended June declining, 2017, a decrease of € 21.4 million, or 38.4%, from € 55.8 million in the six-month period ended June declining, 2016.

10.6.1.6 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for the Treasury Services & Markets Segment

	For the six-month periods ended June 30,	
	2017	**2016**
	(unaudited) (in € million)	
Net interest income	24.9	28.2
Net fee and commission income	0.0	0.0
Core revenues	**24.9**	**28.2**
Gains and losses on financial instruments	9.8	0.7
Other operating income and expenses	0.0	0.0
Operating income	**34.7**	**28.9**
Operating expenses	**(8.0)**	**(8.0)**
Total risk costs	0.0	0.0
Profit before tax	**26.7**	**20.9**
Income taxes	–	–
Profit after tax	**26.7**	**20.9**
Non-controlling interests	–	–
Net profit	**26.7**	**20.9**

Source: BAWAG Group's Financial Statements.

10.6.1.6.1 Net Interest Income for the Treasury Services & Markets Segment

Net interest income decreased to € 24.9 million in the six-month period ended June 30, 2017, a decrease of € 3.3 million, or 11.7%, compared to € 28.2 million in the six-month period ended June 30, 2016, primarily due to lower yields on reinvestments.

10.6.1.6.2 Net Fee and Commission Income for the Treasury Services & Markets Segment

Net fee and commission income remained stable at € 0.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.6.3 Core Revenues for the Treasury Services & Markets Segment

Core revenues amounted to € 24.9 million in the six-month period ended June 30, 2017, a decrease of € 3.3 million, or 11.7%, from € 28.2 million in the six-month period ended June 30, 2016, due to a corresponding decrease of € 3.3 million in net interest income.

10.6.1.6.4 Gains and Losses on Financial Instruments for the Treasury Services & Markets Segment

Gains and losses on financial instruments amounted to € 9.8 million in the six-month period ended June 30, 2017, an increase of € 9.1 million from € 0.7 million in the six-month period ended June 30, 2016. The large increase was driven by the sale of bonds as part of the active management of the Treasury Services & Markets segment's portfolio.

10.6.1.6.5 Other Operating Income and Expenses for the Treasury Services & Markets Segment

Other operating income and expenses remained stable at € 0.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.6.6 Operating Income for the Treasury Services & Markets Segment

Operating income increased to € 34.7 million in the six-month period ended June 30, 2017, an increase of € 5.8 million, or 20.1%, compared to € 28.9 million in the six-month period ended June 30, 2016, driven by the increase in gains and losses on financial instruments.

10.6.1.6.7 Operating Expenses for the Treasury Services & Markets Segment

Operating expenses remained stable at € 8.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.6.8 Total Risk Costs for the Treasury Services & Markets Segment

Total risk costs remained stable at € 0.0 million in the six-month period ended June 30, 2017, and the six-month period ended June 30, 2016.

10.6.1.6.9 Profit before Tax/Net Profit for the Treasury Services & Markets Segment

Net profit amounted to € 26.7 million in the six-month period ended June 30, 2017, an increase of € 5.8 million, or 27.8%, from € 20.9 million in the six-month period ended June 30, 2016.

10.6.1.7 Comparison of the Six-Month Period Ended June 30, 2017, and the Six-Month Period Ended June 30, 2016, for the Corporate Center Segment

	For the six-month periods ended June 30,	
	2017	**2016**
	(unaudited) (in € million)	
Net interest income	(2.6)	10.4
Net fee and commission income	(1.4)	3.7
Core revenues	**(4.0)**	**14.1**
Gains and losses on financial instruments	5.5	22.9
Other operating income and expenses	1.8	2.1
Operating income	**3.3**	**39.1**
Operating expenses	**(23.5)**	**(16.5)**
Regulatory charges	(11.4)	(19.1)
Total risk costs	(5.9)	(0.8)[1)]
Share of the profit or loss of associates accounted for using the equity method	1.8	4.3
Profit before tax	**(35.7)**	**7.0**
Income taxes	(47.1)	39.3
Profit after tax	**(82.8)**	**46.2**
Non-controlling interests	0.0	(0.2)
Net profit	**(82.8)**	**46.1**

1) Number differs from the Unaudited Interim Condensed Financial Statements as of and for the six-month period ended June 30, 2016, due to rounding differences.

Source: BAWAG Group's Financial Statements.

10.6.1.7.1 Net Interest Income for the Corporate Center Segment

Net interest income amounted to € (2.6) million in the six-month period ended June 30, 2017, a decrease of € 13.0 million compared to € 10.4 million in the six-month period ended June 30, 2016. Interest income, which is generated in the Corporate Center segment by providing asset liability management for BAWAG Group, specifically interest and liquidity funds transfer pricing and by hedging activities in the market, remained largely stable.

Although average yields declined, interest expense slightly increased due to higher volumes stemming from the issue of the Feldspar 2016-1 PLC residential mortgage backed securities in November 2016 in the aggregate amount of £ 500 million with a coupon of 3-month £ LIBOR plus 70 basis points p.a. and a weighted-average life (WAL) of 3.04 years, the issue of a public sector covered bond in the notional amount of € 500 million with a ten year tenor and a coupon of 0.75% p.a. in January 2017, and additional bond issues from IMMO-BANK.

Net interest income was negatively affected by liquidity funds transfer pricing (FTP) primarily due to higher deposit volumes which could not be offset by higher yields on loans. In addition, negative pull to par effects from fair value adjustments with respect to loans forming part of the acquired assets of start:bausparkasse and IMMO-BANK were allocated to the Corporate Center segment.

10.6.1.7.2 Net Fee and Commission Income for the Corporate Center Segment

Net fee and commission income amounted to € (1.4) million in the six-month period ended June 30, 2017, a decrease of € 5.1 million compared to € 3.7 million in the six-month period ended June 30, 2016. Net fee and commission income for the Corporate Center segment in the six-month period ended June 30, 2016, was impacted by a one-time positive effect related to the sale of the participation in BAWAG Malta Bank Limited, whereas fee and commission income in the six-month period ended June 30, 2017, was influenced by expenses relating to securities services, such as depository and custodian fees.

10.6.1.7.3 Core Revenues for the Corporate Center Segment

Core revenues amounted to € (4.0) million in the six-month period ended June 30, 2017, a decrease of € 18.1 million from € 14.1 million in the six-month period ended June 30, 2016, driven by decreases of € 13.0 million and € 5.1 million in net interest income and net fee and commission income, respectively.

10.6.1.7.4 Gains and Losses on Financial Instruments for the Corporate Center Segment

Gains and losses on financial instruments decreased to € 5.5 million in the six-month period ended June 30, 2017, a decrease of € 17.4 million, or 76%, from € 22.9 million in the six-month period ended June 30, 2016. This was mainly due to gains from the sale of subsidiaries in the six-month period ended June 30, 2016, with the participations in BAWAG Malta Bank Limited and Visa Europe Limited resulting in gains of € 4.2 million and € 4.5 million, respectively. In addition, the first-time evaluation of embedded floors in corporate loans had a positive impact on gains and losses on financial instruments (which also includes valuation effects of derivatives used to hedge such floors) for the Corporate Center segment in the six-month period ended June 30, 2016.

10.6.1.7.5 Other Operating Income and Expenses for the Corporate Center Segment

Other operating income and expenses decreased to € 1.8 million in the six-month period ended June 30, 2017, a decrease of € 0.3 million, or 14.3%, from € 2.1 million in the six-month period ended June 30, 2016.

10.6.1.7.6 Operating Income for the Corporate Center Segment

Operating income decreased to € 3.3 million in the six-month period ended June 30, 2017, a decrease of € 35.8 million, or 91.6%, from € 39.1 million in the six-month period ended June 30, 2016, driven by decreases in core revenues, gains and losses on financial instruments and other operating income and expenses.

10.6.1.7.7 Operating Expenses for the Corporate Center Segment

Operating expenses increased to € 23.5 million in the six-month period ended June 30, 2017, an increase of € 7.0 million, or 42.4%, from € 16.5 million in the six-month period ended June 30, 2016, due to accrual effects driven by staff costs that were booked in December 2016 for the full financial year 2016 and in the six-month period ended June 30, 2017, on a pro rata basis.

10.6.1.7.8 Regulatory Charges for the Corporate Center Segment

Regulatory charges amounted to € 11.4 million in the six-month period ended June 30, 2017, a decrease of € 7.7 million, or 40.3%, from € 19.1 million in the six-month period ended June 30, 2016. This was driven by changes to the Austrian bank levy regulation upon which BAWAG Group opted to pay a one-time Austrian bank levy (*Bankenstabilitätsabgabe*) in the six-month period ended December 31, 2016, rather than spreading the payment out over five years which led to a reduced bank levy of € 2.0 million in the six-month period ended June 30, 2017, compared to € 11 million in the six-month period ended June 30, 2016. Contributions to the single resolution fund increased to € 8.0 million in the six-month period ended June 30, 2017, (up € 1.0 million compared to the six-month period ended June 30, 2016).

10.6.1.7.9 Total Risk Costs for the Corporate Center Segment

Total risk costs increased to € 5.9 million in the six-month period ended June 30, 2017, an increase of € 5.1 million, or 637.5%, from € 0.8 million in the six-month period ended June 30, 2016, mainly due to reserves for potential operational losses as well as future settlements of legal disputes.

10.6.1.7.10 Share of the Profit or Loss of Associates accounted for using the Equity Method for the Corporate Center Segment

Share of the profit or loss of associates accounted for using the equity method decreased to € 1.8 million in the six-month period ended June 30, 2017, a decrease of € 2.5 million, or 58.1%, from € 4.3 million in the six-month period ended June 30, 2016, mainly due the sale of Visa Europe Limited in the financial year 2016.

10.6.1.7.11 Profit before Tax for the Corporate Center Segment

Profit before tax amounted to € (35.7) million in the six-month period ended June 30, 2017, a decrease of € 42.7 million from € 7.0 million in the six-month period ended June 30, 2016.

10.6.1.7.12 Income Taxes for the Corporate Center Segment

Income taxes amounted to € 47.1 million in the six-month period ended June 30, 2017, a decrease of € 86.4 million from a benefit in the amount of € 39.3 million in the six-month period ended June 30, 2016. The one-time positive tax effect in the six-month period ended June 30, 2016, which was mainly due to recognition of deferred tax assets on tax loss carryforwards, did not repeat in the six-month period ended June 30, 2017.

10.6.1.7.13 Profit after Tax for the Corporate Center Segment

Profit after tax decreased to € (82.8) million in the six-month period ended June 30, 2017, a decrease of € 129.0 million from € 46.2 million in the six-month period ended June 30, 2016. Profit after tax in the six-month period ended June 30, 2016, was significantly impacted by a one-time net tax benefit booked during that period.

10.6.1.7.14 Non-controlling Interests for the Corporate Center Segment

Non-controlling interests increased to € 0.0 million in the six-month period ended June 30, 2017, an increase of € 0.2 million from € (0.2) million in the six-month period ended June 30, 2016.

10.6.1.7.15 Net Profit for the Corporate Center Segment

Net profit decreased to € (82.8) million in the six-month period ended June 30, 2017, a decrease of € 128.9 million from € 46.1 million in the six-month period ended June 30, 2016. Net profit in the six-month period ended June 30, 2016, was significantly impacted by a one-time net tax benefit booked during that period which was mainly due to recognition of deferred tax assets on tax loss carryforwards. In addition, profit before tax experienced a decrease of € 42.7 million compared to the six-month period ended June 30, 2016.

10.6.2 Comparison of the Financial Years ended December 31, 2016, and December 31, 2015

BAWAG Group:

	For the financial years ended December 31,	
	2016	**2015**
	(audited)	
	(in € million)	
Interest income	1,024.4	1,051.3
Interest expense	(297.7)	(339.2)
Dividend Income	3.3	10.2
Net interest income	**730.0**	**722.3**
Fee and commission income	276.3	292.3
Fee and commission expense	(83.4)	(106.4)
Net fee and commission income	**192.9**	**185.9**
Core revenues	**922.9**	**908.2**
Gains and losses on financial assets and liabilities	19.1	64.8
Other operating income and expenses	4.7	(36.4)
thereof regulatory charges	(84.9)	(35.2)
Administrative expenses	(405.4)	(432.9)
thereof regulatory charges	(2.3)	(1.6)
Depreciation and amortization on tangible and intangible non-current assets	(36.2)	(38.9)
Risk costs	(42.7)	(45.8)
Share of the profit or loss of associates accounted for using the equity method	8.0	(0.5)
Profit before tax	**470.4**	**418.5**
Income taxes	13.4	(24.1)
Profit after tax	**483.8**	**394.4**
Thereof attributable to non-controlling interests	0.2	0.0
Thereof attributable to owners of the parent	**483.6**	**394.4**

Source: BAWAG Group's Financial Statements.

The segments in detail:

	BAWAG P.S.K. Retail		easygroup		DACH Corporates & Public Sector		International Business		Treasury Services & Markets		Corporate Center		Total	
	For the financial years ended December 31,													
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(audited) (in € million)													
Net interest income	352.3	331.4	115.8	57.1	79.5	99.4	134.0	142.2	54.3	58.1	(5.9)	34.1	730.0	722.3
Net fee and commission income	141.1	135.9	10.1	8.1	39.7	39.2	(0.1)	0.0	0.0	0.0	2.1	2.7	192.9	185.9
Core revenues	**493.4**	**467.3**	**125.9**	**65.2**	**119.2**	**138.6**	**133.9**	**142.2**	**54.3**	**58.1**	**(3.8)**	**36.8**	**922.9**	**908.2**
Gains and losses on financial instruments	0.8	6.5	0.0	0.0	1.0	5.1	(2.8)	(6.0)	11.9	13.8	8.2	45.4	19.1	64.8
Other operating income and expenses	1.5	1.1	(1.4)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	48.4	(2.5)[1)]	48.5	(1.2)
Operating income	**495.7**	**474.9**	**124.5**	**65.3**	**120.2**	**143.7**	**131.1**	**136.2**	**66.2**	**71.9**	**52.8**	**79.8**	**990.5**	**971.8**
Operating expenses	**(273.5)**	**(303.2)**	**(30.6)**	**(23.4)**	**(53.6)**	**(56.8)**	**(29.9)**	**(25.7)**	**(16.3)**	**(19.0)**	**(35.4)**	**(42.1)**	**(439.3)**	**(470.2)**[2)]
Regulatory charges	(12.3)	(6.3)	(2.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(31.4)	(30.5)	(46.1)[3)]	(36.8)[2)]
Total risk costs	(40.8)	(33.9)	(4.8)	0.1	4.4	(6.4)	1.2	0.2	0.0	0.0	(2.7)	(5.8)	(42.7)	(45.8)
Share of the profit or loss of associates accounted for using the equity method	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0	(0.5)	8.0	(0.5)
Profit before tax	**169.1**	**131.5**	**86.7**	**42.0**	**71.0**	**80.5**	**102.4**	**110.7**	**49.9**	**52.9**	**(8.7)**	**0.9**	**470.4**	**418.5**
Income taxes	–	–	–	–	–	–	–	–	–	–	13.4	(24.1)	13.4	(24.1)
Profit after tax	**169.1**	**131.5**	**86.7**	**42.0**	**71.0**	**80.5**	**102.4**	**110.7**	**49.9**	**52.9**	**4.7**	**(23.2)**	**483.8**	**394.4**
Non-controlling interests	–	–	–	–	–	–	–	–	–	–	(0.2)	0.0	(0.2)	0.0
Net profit	**169.1**	**131.5**	**86.7**	**42.0**	**71.0**	**80.5**	**102.4**	**110.7**	**49.9**	**52.9**	**4.5**	**(23.2)**	**483.6**	**394.4**

1) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016 due to rounding differences.

2) Numbers were restated as per the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016. Regulatory charges for BAWAG Group for the financial year 2015 as shown in the above table include € 1.6 million, which were included in operating expenses for the purposes of note 5 to the consolidated financial statements in the Audited Consolidated Financial Statements as of and for the financial years 2016 and 2015 and in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015.

3) Number is taken from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016. Regulatory charges for BAWAG Group for the financial year 2016 as shown in the above table exclude a € 41.0 million one-off bank levy paid in the financial year 2016, which was included in regulatory charges in note 5 to the consolidated financial statements in the Audited Consolidated Financial Statements as of and for the financial year 2016.

Source: BAWAG Group's Financial Statements.

10.6.2.1 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for BAWAG Group

10.6.2.1.1 Interest Income for BAWAG Group

Interest income amounted to € 1,024.4 million in the financial year 2016, a decrease of € 26.9 million, or 2.6%, compared to € 1,051.3 million in the financial year 2015. The decrease was mainly due to lower income from interest rate derivatives and available-for-sale securities as the general market trend saw a decrease in rates. This was only partly offset by increased income from loans and advances mainly arising from increased loan volume due to the acquisitions of start:bausparkasse, IMMO-BANK and the French and U.K. Mortgage Loan Portfolios.

Because a large portion of loans held by BAWAG Group have floating interest rates, the borrower-friendly market environment, which saw negative interest rates, put pressure on interest income. In particular, interest income from financial assets held for trading decreased by € 37.7 million (or 32.4%) compared to the financial year 2015, interest income from available-for-sale financial assets decreased by € 21.7 million (or 24.3%) compared to the financial year 2015 and interest income from financial assets designated at fair value through profit or loss decreased by € 7.2 million (or 65.5%) compared to the financial year 2015. In addition, interest income from held-to-maturity investments decreased by € 4.3 million (or 10.1%) compared to the financial year 2015, interest income from derivatives (hedge accounting, interest rate risk) decreased by € 0.6 million (or 0.4%) compared to the financial year 2015 and interest income from cash reserves decreased by € 0.1 million (or 100.0%) compared to the financial year 2015. Increases in interest income of € 42.7 million from loans and receivables (up 6.5% from the financial year 2015) and € 2.0 million from other assets (up to € 2.2 million in the financial year 2016 from € 0.2 million in the financial year 2015) partially offset such decreases.

10.6.2.1.2 Interest Expense for BAWAG Group

Interest expense decreased to € 297.7 million in the financial year 2016, a decrease of € 41.5 million, or 12.2%, from € 339.2 million in the financial year 2015, mainly due to lower funding costs and the low-interest rate environment that allowed BAWAG Group to lower interest rates on customer deposits throughout its whole product suite (i.e., average interest rates on customer deposits for the BAWAG P.S.K. Retail segment decreased from 0.59% in the financial year 2014 to 0.31% in the financial year 2015 and to 0.21% in the financial year 2016 and average interest rates on customer deposits for the easygroup segment decreased from 0.74% in the financial year 2014 to 0.53% in the financial year 2015 and to 0.41% in the financial year 2016).

Decreases in interest expense from financial liabilities measured at amortized cost, from financial liabilities designated at fair value through profit or loss and from provisions for social capital contributed € 52.8 million (down 25.9% from the financial year 2015), € 19.9 million (down 40.4% from the financial year 2015) and € 1.8 million (down 18.4% from the financial year 2015), respectively, while interest expense from financial liabilities held for trading, from derivatives (hedge accounting, interest rate risk), from deposits from central banks and from other liabilities increased by € 15.4 million (up 37.5% from the financial year 2015), € 13.6 million (up 38.9% from the financial year 2015), € 2.5 million and € 1.5 million, respectively.

10.6.2.1.3 Dividend Income for BAWAG Group

Dividend income decreased to € 3.3 million in the financial year 2016, a decrease of € 6.9 million, or 67.6%, from € 10.2 million in the financial year 2015, primarily due to a decrease in dividend income from equity investments caused by the sale of the participation in BAWAG Allianz Vorsorgekasse AG and the maturity of legacy investment portfolios in non-consolidated subsidiaries.

10.6.2.1.4 Net Interest Income for BAWAG Group

Net interest income increased to € 730.0 million in the financial year 2016, an increase of € 7.7 million, or 1.1%, from € 722.3 million in the financial year 2015. Net interest income is primarily derived from the BAWAG P.S.K. Retail segment, which contributed € 352.3 million, or nearly half the net interest income of BAWAG Group, followed by the segments International Business with € 134.0 million, easygroup with € 115.8 million, DACH Corporates & Public Sector with € 79.5 million and Treasury Services & Markets € 54.3 million, whereas the Corporate Center segment recognized net interest expense in the amount of € 5.9 million in the financial year 2016.

The overall increase was driven primarily by net asset growth that was supported by acquisitions and lower funding costs, with a largely stable Net Interest Margin of 2.3%. Net interest income in the amount of € 60.2 million in the financial year 2016 was attributable to acquisitions made in the financial years 2016 and 2015. Increases in the easygroup and BAWAG P.S.K. Retail segments contributed € 58.7 million (up

102.8% from the financial year 2015) and € 20.9 million (up 6.3% from the financial year 2015), respectively, while net interest income in the Corporate Center, DACH Corporates & Public Sector, International Business and Treasury Services & Markets segments decreased by € 40.0 million (down 117.3% from the financial year 2015), € 19.9 million (down 20.0% from the financial year 2015), € 8.2 million (down 5.8% from the financial year 2015) and € 3.8 million (down 6.5% from the financial year 2015), respectively.

10.6.2.1.5 Fee and Commission Income for BAWAG Group

Fee and commission income decreased to € 276.3 million in the financial year 2016, a decrease of € 16.0 million, or 5.5%, compared to € 292.3 million in the financial year 2015.

This decrease was mainly a result of a € 21.8 million decrease in fee and commission income from the securities and custody business (down 37.1% from the financial year 2015), largely due to lower sales volumes with regard to securities and one-off effects in the financial year 2015. Following the sale of BAWAG P.S.K. INVEST GmbH, BAWAG Group's captive asset manager, to Amundi S.A., BAWAG P.S.K. initially continued to serve as custodian bank for the divested business, but the function as custodian bank was transferred to State Street later in the financial year 2015. The results of operations for the financial year 2015 include proceeds from the sale of the custodian bank business in an amount of € 8.0 million, while the divestiture also caused a reduction in fees from custody business in an amount of € 2.0 million in the financial year 2016 compared to the financial year 2015. Furthermore, fee and commission income from payment transfers also decreased by € 2.0 million (down 1.2% from the financial year 2015). Fee and commission income from lending increased by € 4.8 million (up 19.0% from the financial year 2015), mainly because of higher originations of term loans, and fee and commission income from other services increased by € 3.0 million (up 8.3% from the financial year 2015), but did not fully compensate for the aforementioned decreases.

10.6.2.1.6 Fee and Commission Expense for BAWAG Group

Fee and commission expenses decreased to € 83.4 million in the financial year 2016, a decrease of € 23.0 million, or 21.6%, from € 106.4 million in the financial year 2015.

The decrease was driven by a decrease of € 22.1 million from other fee and commission expenses (down 36.1% from the financial year 2015), largely due to the release of a provision, while expenses from securities and custody business and from lending also decreased by € 1.9 million (down 38.8% from the financial year 2015) and € 0.3 million (down 15.8% from the financial year 2015), respectively. On the other hand, expenses from payment transfers were up by € 1.3 million (up 3.4% from the financial year 2015).

10.6.2.1.7 Net Fee and Commission Income for BAWAG Group

Net fee and commission income increased to € 192.9 million in the financial year 2016, an increase of € 7.0 million, or 3.8%, compared to € 185.9 million in the financial year 2015. More than two thirds of the net fee and commission income, € 141.1 million, was derived from the BAWAG P.S.K. Retail segment, whereas the DACH Corporates & Public Sector, easygroup and Corporate Center segments accounted for € 39.7 million, € 10.1 million and € 2.1 million, respectively. The International Business segment, however, recognized net fee and commission expenses in the amount of € 0.1 million in the financial year 2016.

The overall increase was due to increases in the BAWAG P.S.K. Retail, easygroup and DACH Corporates & Public Sector segments of € 5.2 million (up 3.8% from the financial year 2015), € 2.0 million (up 24.7% from the financial year 2015) and € 0.5 million (up 1.3% from the financial year 2015), respectively, while net fee and commission income for the Corporate Center and International Business segments decreased by € 0.6 million (down 22.2% from the financial year 2015) and € 0.1 million (down to € (0.1) million in the financial year 2016 from € 0.0 million in the financial year 2015), respectively.

10.6.2.1.8 Core Revenues for BAWAG Group

Core revenues increased to € 922.9 million in the financial year 2016, an increase of € 14.7 million, or 1.6%, from € 908.2 million in the financial year 2015. € 493.4 million, more than half of the total amount of core revenues, was derived from the BAWAG P.S.K. Retail segment, while the International Business, easygroup, DACH Corporates & Public Sector as well as Treasury Services & Markets segments contributed € 133.9 million, € 125.9 million, € 119.2 million and € 54.3 million, respectively. The Corporate Center segment incurred negative core revenues in the amount of € 3.8 million.

The overall increase was driven by a substantial increase in the easygroup segment of € 60.7 million (or 93.1%) compared to the financial year 2015, which, in turn, was largely due to the acquisition of the French and U.K. Mortgage Loan Portfolios as well as of VB Leasing. Together with an increase in the BAWAG

P.S.K. Retail segment in the amount of € 26.1 million (up 5.6% from the financial year 2015), this more than offset decreases in the remaining segments: € 40.6 million in the Corporate Center segment (down 110.3% from the financial year 2015) primarily because of lower net interest income caused by the market environment and less income from the sale of subsidiaries, € 19.4 million in the DACH Corporates & Public Sector segment (down 14.0% from the financial year 2015), € 8.3 million in the International Business segment (down 5.8% from the financial year 2015) and € 3.8 million in the Treasury Services & Markets segment (down 6.5% from the financial year 2015).

10.6.2.1.9 Gains and Losses on Financial Assets and Liabilities for BAWAG Group

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sales of BAWAG Group's investments, the sales of subsidiaries, issued securities, sales gains and losses from NPLs and derivative transactions with customers.

Gains and losses on financial assets and liabilities decreased to € 19.1 million in the financial year 2016, a decrease of € 45.7 million, or 70.5%, from € 64.8 million in the financial year 2015. The gains and losses primarily derived from the Treasury Services & Markets and Corporate Center segments, which accounted for net gains on financial assets and liabilities in the amount of € 11.9 million and € 8.2 million, respectively. DACH Corporates & Public Sector and BAWAG P.S.K. Retail contributed gains of € 1.0 million and € 0.8 million, respectively, whereas the International Business segment incurred losses of € 2.8 million.

The decline was predominantly driven by lower profits from the sale of securities and subsidiaries in the financial year 2016 as BAWAG Group had sold off its non-core participations in the previous financial years. This led to a decrease of € 94.6 million (or 90.9% from the financial year 2015) in realized gains on financial assets and liabilities not measured at fair value through profit or loss and a decrease of € 18.6 million (or 65.7% from the financial year 2015) in gains on financial assets and liabilities designated at fair value through profit or loss. These losses were partially offset by a reverse development in financial assets and liabilities held for trading, which generated gains of € 2.3 million in the financial year 2016 compared to losses of € 73.1 million in the financial year 2015 (a difference of € 75.4 million). The losses in financial assets and liabilities held for trading in the financial year 2015 were caused by monetized hedging transactions relating to sales of securities. Because sales of securities were lower, fewer such hedging transactions were monetized in the financial year 2016.

Additionally, exchange differences produced losses in the amount of € 2.5 million (€ 7.0 million lower than the gains in the financial year 2015).

This development was reflected across nearly all segments, with decreases recorded for the segments Corporate Center of € 37.2 million (down 81.9% from the financial year 2015), BAWAG P.S.K. Retail of € 5.7 million (down 87.7% from the financial year 2015), DACH Corporates & Public Sector of € 4.1 million (down 80.4% from the financial year 2015) and Treasury Services & Markets of € 1.9 million (down 13.8% from the financial year 2015) and only the International Business segment trending upwards by reducing losses by € 3.2 million as compared to the financial year 2015.

10.6.2.1.10 Other Operating Income and Expenses for BAWAG Group

Other operating income and expenses increased to € 4.7 million in the financial year 2016, an increase of € 41.1 million from € (36.4) million in the financial year 2015.

This development was predominantly driven by an increase of € 89.9 million in income from business combinations (up to € 90.0 million in the financial year 2016 compared to € 0.1 million in the financial year 2015), resulting from the acquisition and the first-time consolidation of start:bausparkasse and IMMO-BANK, net of restructuring costs in connection with these acquisitions, as well as a € 49.7 million increase in expenses on regulatory charges (up 141.2% from the financial year 2015) mainly due to an elective one-off bank levy in the amount of € 41.0 million. Excluding these two main factors, other income and expenses increased to € 3.0 million as compared to other income and expenses of € (2.3) million in the financial year 2015 (a € 5.3 million difference), losses from the sale of property, plant and equipment decreased by € 3.0 million (down 46.2% from the financial year 2015) and gains from the sale of property, plant and equipment decreased by € 7.4 million (down 97.4% from the financial year 2015) while net income from investment properties remained stable.

10.6.2.1.11 Administrative Expenses for BAWAG Group

Administrative expenses amounted to € 405.4 million in the financial year 2016, a decrease of € 27.5 million, or 6.4% from € 432.9 million in the financial year 2015. While staff costs increased by € 5.5 million (or 2.3%) compared to the financial year 2015, due to the inclusion of VB Leasing for the entire financial year 2016 as well as the acquisition of start:bausparkasse and IMMO-BANK in the financial year

2016. Such increase was more than offset by a decrease in other administrative expenses of € 25.8 million (or 15.8%) compared to the financial year 2015 and a decrease in restructuring and other one-off expenses of € 7.2 million (or 22.6%) compared to the financial year 2015. The decrease in other administrative expenses and restructuring and other one-off expenses was largely due to the integration of subsidiaries as well as reduced expenses for IT, infrastructure, procurement and marketing. Furthermore, due to more services provided by BAWAG Group, PSH provided higher cost reimbursement compared to the financial year 2015.

10.6.2.1.12 Depreciation and Amortization on Tangible and Intangible Non-Current Assets for BAWAG Group

Depreciation and amortization on tangible and intangible non-current assets decreased to € 36.2 million in the financial year 2016, a decrease of € 2.7 million, or 6.9%, from € 38.9 million in the financial year 2015.

This was due to a decrease in depreciation and amortization of software and other intangible assets of € 1.3 million (down 5.8% from the financial year 2015), brand name and customer relationships of € 0.9 million (down 14.3% from the financial year 2015) and property, plant and equipment of € 0.6 million (down 5.8% from the financial year 2015).

10.6.2.1.13 Risk Costs for BAWAG Group

Risk costs decreased to € 42.7 million in the financial year 2016, a decrease of € 3.1 million, or 6.8%, from € 45.8 million in the financial year 2015. Risk costs were primarily allocated to the BAWAG P.S.K. Retail segment with € 40.8 million, followed by the easygroup and Corporate Center segments with € 4.8 million and € 2.7 million, respectively. The DACH Corporates & Public Sector and International Business segments recorded positive amounts of € 4.4 million and € 1.2 million, respectively.

The overall decrease was a result of the positive effect of de-risking actions taken in prior years. While provisions and expenses for operational risk increased by € 4.8 million (up 61.5% from the financial year 2015), this development was offset by changes in provisions for off-balance sheet credit risk, which recorded positive income of € 5.7 million (a € 6.6 million difference compared to the financial year 2015). Further, impairment losses on financial assets decreased by € 0.7 million (down 63.6% from the financial year 2015) and loan loss provisions for loans and receivables decreased by € 0.6 million (down 1.7% from the financial year 2015).

The overall decrease in risk costs resulted from decreases in the segments DACH Corporates & Public Sector of € 10.8 million, Corporate Center of € 3.1 million and International Business of € 1.0 million, while the BAWAG P.S.K. Retail and easygroup segments recorded increases of € 6.9 million and € 4.9 million, respectively.

10.6.2.1.14 Share of the Profit or Loss of Associates Accounted for Using the Equity Method for BAWAG Group

The share of the profit or loss of associates accounted for using the equity method increased to € 8.0 million, an increase of € 8.5 million compared to € (0.5) million in the financial year 2015, due to improved results from the participations in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH allocated to the Corporate Center segment.

10.6.2.1.15 Profit before Tax for BAWAG Group

Profit before tax increased to € 470.4 million in the financial year 2016, an increase of € 51.9 million, or 12.4%, from € 418.5 million in the financial year 2015.

This development was driven by increases in the easygroup and BAWAG P.S.K. Retail segments by € 44.7 million (up 106.4% from the financial year 2015) and € 37.6 million (up 28.6% from the financial year 2015), respectively, which outweighed decreases in the remaining segments. Corporate Center suffered a decrease of € 9.6 million (down 1066.7% from the financial year 2015), DACH Corporates & Public Sector of € 9.5 million (down 11.8% from the financial year 2015), International Business of € 8.3 million (down 7.5% from the financial year 2015) and Treasury Services & Markets of € 3.0 million (down 5.7% from the financial year 2015).

10.6.2.1.16 Income Taxes for BAWAG Group

The line item income taxes shows tax benefit in the amount of € 13.4 million in the financial year 2016, an increase of € 37.5 million compared to tax expenses amounting to € 24.1 million in the financial year 2015. Income taxes are allocated to the Corporate Center segment. Deferred tax benefit in the amount of € 16.8 million in the financial year 2016 was mainly due to recognition of deferred tax assets on tax loss carryforwards, while tax expenses remained relatively stable at € 3.4 million, a minor increase of € 0.1 million (or 3.0%) compared to the financial year 2015. The majority of deferred tax assets had been recognized at the end of the financial year 2016.

10.6.2.1.17 Profit after Tax for BAWAG Group

Profit after tax increased to € 483.8 million in the financial year 2016, an increase of € 89.4 million, or 22.7%, compared to € 394.4 million in the financial year 2015.

10.6.2.1.18 Non-controlling Interests for BAWAG Group

The profit after tax attributable to non-controlling interests increased to € 0.2 million in the financial year 2016, an increase of € 0.2 million from € 0.0 million in the financial year 2015, mainly due to the acquisition of VB Leasing. This line item is allocated to the Corporate Center segment.

10.6.2.1.19 Net Profit for BAWAG Group

Net profit increased to € 483.6 million in the financial year 2016, an increase of € 89.2 million, or 22.6%, from € 394.4 million in the financial year 2015.

10.6.2.2 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for the BAWAG P.S.K. Retail Segment

	For the financial years ended December 31,	
	2016	**2015**
	(audited)	
	(in € million)	
Net interest income	352.3	331.4
Net fee and commission income	141.1	135.9
Core revenues	**493.4**	**467.3**
Gains and losses on financial instruments	0.8	6.5
Other operating income and expenses	1.5	1.1
Operating income	**495.7**	**474.9**
Operating expenses	**(273.5)**	**(303.2)**
Regulatory charges	(12.3)	(6.3)
Total risk costs	(40.8)	(33.9)
Profit before tax	**169.1**	**131.5**
Income taxes	–	–
Profit after tax	**169.1**	**131.5**
Non-controlling interests	–	–
Net profit	**169.1**	**131.5**

Source: BAWAG Group's Financial Statements.

10.6.2.2.1 Net Interest Income for the BAWAG P.S.K. Retail Segment

Net interest income increased to € 352.3 million in the financial year 2016, an increase of € 20.9 million, or 6.3%, compared to € 331.4 million in the financial year 2015.

With a substantial portion of retail loans having floating interest rates, interest income continued to experience pressure from the low-interest rate environment. Under Austrian law, loan agreements that provide for a floating interest rate may not include an interest floor without also providing for an interest cap. In response to that requirement, in the financial year 2016 BAWAG P.S.K. Retail began including both an interest floor (0%) and a cap (4.5%) in all new floating-interest mortgage loans. Interest income nevertheless increased due to an increase in higher-yielding consumer loans, stabilized market rates and the acquisition of start:bausparkasse and IMMO-BANK in December 2016. Furthermore, customers were incentivized to shift from loans denominated in CHF to loans denominated in EUR, which offer a higher yield at equal margins. BAWAG P.S.K. Retail also established a clearly defined pricing framework that calls for a central pricing committee to set minimum margins and that does not allow for an individual branch to overrule such pricing.

On the expense side, blended annual yield was down from 0.31% in the financial year 2015 to 0.21% in the financial year 2016 while the acquisition of start:bausparkasse in December 2016 led to an increase in higher yielding deposits, with deposits in the amount of € 1.8 billion having an average annual yield of 1.20%. BAWAG P.S.K. Retail's customers continued to shift from fixed interest to variable savings products because, under Austrian law, banks are not allowed to charge negative interest rates on consumer deposits, and, thus, in the current low interest rate environment fixed and variable rate deposits have approximately the same interest rates, but variable rate products offer customers the benefit of potential rate increases and little risk of potential rate decreases, thus, eliminating the incentive for customers to choose fixed rate deposits over variable rate deposits. BAWAG P.S.K. Retail was not only focusing on the pricing of its savings accounts and on customers with fixed-term saving accounts (*Kapitalsparbuch*), but also on relationships and products which it believes to be of higher value.

Overall, net interest income increased primarily due to a more profitable product mix, a margin increase on consumer loans and repricing of liabilities.

10.6.2.2.2 Net Fee and Commission Income for the BAWAG P.S.K. Retail Segment

Net fee and commission income increased to € 141.1 million in the financial year 2016, an increase of € 5.2 million, or 3.8%, from € 135.9 million in the financial year 2015. This increase was primarily due to higher sales of payment protection insurance and higher fees due to a higher number of loans originated, which offset lower sales in securities and other insurance products.

10.6.2.2.3 Core Revenues for the BAWAG P.S.K. Retail Segment

Core revenues increased to € 493.4 million in the financial year 2016, an increase of € 26.1 million, or 5.6%, from € 467.3 million in the financial year 2015, driven by increases of € 20.9 million and € 5.2 million in net interest income and net fee and commission income, respectively.

10.6.2.2.4 Gains and Losses on Financial Instruments for the BAWAG P.S.K. Retail Segment

Gains and losses on financial instruments amounted to € 0.8 million in the financial year 2016, a decrease of € 5.7 million, or 87.7%, compared to € 6.5 million in the financial year 2015. Gains and losses on financial instruments allocated to the BAWAG P.S.K. Retail segment were primarily driven by a change in booking entry as fees from foreign exchange transactions were shifted to net fee and commission income as well as results from the sale of NPLs.

10.6.2.2.5 Other Operating Income and Expenses for the BAWAG P.S.K. Retail Segment

Other operating income and expenses increased to € 1.5 million in the financial year 2016, an increase of € 0.4 million, or 36.4%, from € 1.1 million in the financial year 2015, primarily relating to effects from the derecognition of liabilities in connection with dormant accounts.

10.6.2.2.6 Operating Income for the BAWAG P.S.K. Retail Segment

Operating income increased to € 495.7 million in the financial year 2016, an increase of € 20.8 million, or 4.4%, compared to € 474.9 million in the financial year 2015. This was primarily due to an increase in core revenues (up by € 26.1 million) that more than compensated for a decrease in gains and losses on financial instruments (down by € 5.7 million).

10.6.2.2.7 Operating Expenses for the BAWAG P.S.K. Retail Segment

Operating expenses decreased to € 273.5 million in the financial year 2016, a decrease of € 29.7, or 9.8%, from € 303.2 million in the financial year 2015. The decrease was mainly due to streamlining the branch network, reducing retail overhead and optimizing general and administrative expenses such as postage and marketing as well as the integration of the servicing of small businesses into the branch network and the continued implementation of an integrated advisory front-end (GATE).

10.6.2.2.8 Regulatory Charges for the BAWAG P.S.K. Retail Segment

Regulatory charges amounted to € 12.3 million in the financial year 2016, an increase of € 6.0 million, or 95.2%, from € 6.3 million in the financial year 2015, as the phasing-in of the DGS pursuant to the DGSD and its implementation by way of the ESAEG caused contributions to the DGS to double.

10.6.2.2.9 Total Risk Costs for the BAWAG P.S.K. Retail Segment

Total risk costs amounted to € 40.8 million in the financial year 2016, an increase of € 6.9 million, or 20.4%, from € 33.9 million in the financial year 2015. Higher costs were mainly due to higher one-off expenditures with regard to operational risk, which increased by € 5.3 million compared to the financial year 2015.

10.6.2.2.10 Net Profit for the BAWAG P.S.K. Retail Segment

Net profit increased to € 169.1 million in the financial year 2016, an increase of € 37.6 million, or 28.6%, from € 131.5 million in the financial year 2015.

10.6.2.3 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for the easygroup Segment

	For the financial years ended December 31,	
	2016	**2015**
	(audited) **(in € million)**	
Net interest income	115.8	57.1
Net fee and commission income	10.1	8.1
Core revenues	**125.9**	**65.2**
Gains and losses on financial instruments	0.0	0.0
Other operating income and expenses	(1.4)	0.1
Operating income	**124.5**	**65.3**
Operating expenses	**(30.6)**	**(23.4)**
Regulatory charges	(2.4)	0.0
Total risk costs	(4.8)	0.1
Profit before tax	**86.7**	**42.0**
Income taxes	–	–
Profit after tax	**86.7**	**42.0**
Non-controlling interests	–	–
Net profit	**86.7**	**42.0**

Source: BAWAG Group's Financial Statements.

10.6.2.3.1 Net Interest Income for the easygroup Segment

Net interest income increased to € 115.8 million in the financial year 2016, an increase of € 58.7 million, or 102.8%, compared to € 57.1 million in the financial year 2015.

The strong increase in net interest income was primarily driven by the acquisition of VB Leasing in October 2015 and the acquisition of the U.K. Mortgage Loan Portfolio in December 2015 being reflected in the results of operations for the financial year 2016 on a full-year-basis. VB Leasing contributed € 19 million in net interest income and the U.K. Mortgage Loan Portfolio contributed € 37 million in net interest income. Interest income was further boosted by the acquisition of the French Mortgage Loan Portfolio in December 2016, which generated € 3 million in net interest income in the financial year 2016. In addition, easybank generated double-digit organic growth due to the performance in its core products.

Downward pricing for deposits led to declining interest expense both in absolute terms as well as blended annual yield (down to 0.41% in the financial year 2016 from 0.53% in the financial year 2015), despite a substantial increase in deposit volume due to easybank's FreshMoney initiative in the financial year 2016. In the time from April 15, 2016, to June 30, 2016, customers were offered an interest premium of 0.60% for new money held until the end of 2016.

10.6.2.3.2 Net Fee and Commission Income for the easygroup Segment

Net fee and commission income increased to € 10.1 million in the financial year 2016, an increase of € 2.0 million, or 24.7%, from € 8.1 million in the financial year 2015. Increased income from fees and commissions was equally driven by the acquisition of VB Leasing as well as the French and U.K. Mortgage Loan Portfolios, each contributing € 1.0 million in net income. Net fee and commission income from easybank's remaining business remained stable.

10.6.2.3.3 Core Revenues for the easygroup Segment

Core revenues increased to € 125.9 million in the financial year 2016, an increase of € 60.7 million, or 93.1%, from € 65.2 million in the financial year 2015. This was driven by the substantial increase in net interest income.

10.6.2.3.4 Gains and Losses on Financial Instruments for the easygroup Segment

Gains and losses on financial instruments remained stable at € 0.0 million in the financial years 2016 and 2015.

10.6.2.3.5 Other Operating Income and Expenses for the easygroup Segment

Other operating income and expenses amounted to € (1.4) million in the financial year 2016, a decrease of € 1.5 million from € 0.1 million in the financial year 2015, mainly due to fees paid in connection with the partnership with Shell, for example for automated teller machines, which exceeded income from dormant accounts.

10.6.2.3.6 Operating Income for the easygroup Segment

Operating income increased to € 124.5 million in the financial year 2016, an increase of € 59.2, or 90.7%, from € 65.3 million in the financial year 2015, driven by the substantial increase in core revenues.

10.6.2.3.7 Operating Expenses for the easygroup Segment

Operating expenses amounted to € 30.6 million in the financial year 2016, an increase of € 7.2 million, or 30.8%, compared to € 23.4 million in the financial year 2015. Increased operating expenses were due to the acquisition of VB Leasing, which was reflected in the results of operations on a full-year-basis for the first time in the financial year 2016. The acquisition of VB Leasing caused an increase in operating expenses in the amount of € 7.6 million in the financial year 2016, while operating expenses for the existing business decreased by € 0.3 million in the financial year 2016.

10.6.2.3.8 Regulatory Charges for the easygroup Segment

Regulatory charges amounted to € 2.4 million in the financial year 2016, an increase of € 2.4 million as contributions to the DGS were allocated to the easygroup segment for the first time.

10.6.2.3.9 Total Risk Costs for the easygroup Segment

Total risk costs amounted to € 4.8 million in the financial year 2016, an increase of € 4.9 million from € (0.1) million in the financial year 2015, due to risk costs associated with acquired assets, specifically € 3.9 million with regard to the U.K. Mortgage Loan Portfolio and € 0.3 million with regard to VB Leasing.

10.6.2.3.10 Net Profit for the easygroup Segment

Net profit increased to € 86.7 million in the financial year 2016, an increase of € 44.7, or 106.4%, from € 42.0 million in the financial year 2015.

10.6.2.4 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for the DACH Corporates & Public Sector Segment

	For the financial years ended December 31,	
	2016	**2015**
	(audited) **(in € million)**	
Net interest income	79.5	99.4
Net fee and commission income	39.7	39.2
Core revenues	**119.2**	**138.6**
Gains and losses on financial instruments	1.0	5.1
Other operating income and expenses	0.0	0.0
Operating income	**120.2**	**143.7**
Operating expenses	**(53.6)**	**(56.8)**
Total risk costs	4.4	(6.4)
Profit before tax	**71.0**	**80.5**
Income taxes	–	–
Profit after tax	**71.0**	**80.5**
Non-controlling interests	–	–
Net profit	**71.0**	**80.5**

Source: BAWAG Group's Financial Statements.

10.6.2.4.1 Net Interest Income for the DACH Corporates & Public Sector Segment

Net interest income amounted to € 79.5 million in the financial year 2016, a decrease of € 19.9 million, or 20.0%, compared to € 99.4 million in the financial year 2015.

As the majority of loans in the DACH Corporates & Public Sector segment's portfolio have variable interest rates, interest income suffered from the low-interest rate environment and margin pressure. Additionally, self-imposed pricing discipline of BAWAG Group had a material impact on DACH Corporates & Public Sector and caused lower loan volumes.

At the same time, interest expense increased due to higher deposit volumes. Because there are a significant number of historic term deposits with fixed interest rates, a repricing of current accounts and term deposits with floating interest rates was not enough to compensate for the increase in interest expense.

10.6.2.4.2 Net Fee and Commission Income for the DACH Corporates & Public Sector Segment

Net fee and commission income remained fairly stable at € 39.7 million in the financial year 2016, an increase of € 0.5 million, or 1.3%, from € 39.2 million in the financial year 2015. The flat development was mainly due to the DACH Corporates & Public Sector segment's decision to consolidate its market share in a competitive market with strong price competition by defending existing customer relationships, leading to reductions in price in individual cases, but also gaining only select new customers. Fees for payment services continue to be the main source of income, generating more than 90% of the net fee and commission income.

10.6.2.4.3 Core Revenues for the DACH Corporates & Public Sector Segment

Core revenues amounted to € 119.2 million in the financial year 2016, a decrease of € 19.4 million, or 14.0%, compared to € 138.6 million in the financial year 2015, driven by a substantial decrease in net interest income (down by € 19.9 million).

10.6.2.4.4 Gains and Losses on Financial Instruments for the DACH Corporates & Public Sector Segment

Gains and losses on financial instruments amounted to € 1.0 million in the financial year 2016, a decrease of € 4.1 million, or 80.4%, from € 5.1 million in the financial year 2015. Gains and losses on financial instruments allocated to the DACH Corporates & Public Sector segment were primarily driven by a change in booking entry as fees from foreign exchange transactions were shifted to net fee and commission income in the financial year 2016, by credit valuation adjustments and debt valuation adjustments for client derivative business for hedging and by the sale of loans and securities.

10.6.2.4.5 Other Operating Income and Expenses for the DACH Corporates & Public Sector Segment

Other operating income and expenses remained stable at € 0.0 million in the financial years 2016 and 2015.

10.6.2.4.6 Operating Income for the DACH Corporates & Public Sector Segment

Operating income amounted to € 120.2 million in the financial year 2016, a decrease of € 23.5 million, or 16.4%, from € 143.7 million in the financial year 2015, due to a substantial decrease in core revenues (down by € 19.4 million) and a decrease in gains and losses on financial instruments (down by € 4.1 million).

10.6.2.4.7 Operating Expenses for the DACH Corporates & Public Sector Segment

Operating expenses decreased to € 53.6 million in the financial year 2016, a decrease of € 3.2 million, or 5.6%, from € 56.8 million in the financial year 2015. The decrease in operating expenses mainly reflected the results of BAWAG Group's strategic decisions to exit business in Central and Eastern Europe (comprising according to BAWAG Group's definition Belarus, Bosnia Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, the Russian Federation, Serbia, Slovakia, Slovenia, Turkey and Ukraine ("**CEE Countries**")), with no additional costs expected, and to discontinue relationships with non-profitable clients and, instead, focus on core clients, streamlining the DACH Corporates & Public Sector segment's organizational structure and centralizing the back-office for sales.

10.6.2.4.8 Total Risk Costs for the DACH Corporates & Public Sector Segment

Total risk costs showed a positive income of € 4.4 million in the financial year 2016, a decrease in costs of € 10.8 million compared to costs of € 6.4 million in the financial year 2015. This positive effect was caused by BAWAG Group's risk policy, and discontinuing relationships with non-core customers, specifically with regard to CEE Countries, and low new business originations, which led to no material new defaults in the financial year 2016.

10.6.2.4.9 Net Profit for the DACH Corporates & Public Sector Segment

Net profit amounted to € 71.0 million in the financial year 2016, a decrease of € 9.5 million, or 11.8%, from € 80.5 million in the financial year 2015.

10.6.2.5 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for the International Business Segment

	For the financial years ended December 31,	
	2016	**2015**
	(audited)	
	(in € million)	
Net interest income	134.0	142.2
Net fee and commission income	(0.1)	0.0
Core revenues	**133.9**	**142.2**
Gains and losses on financial instruments	(2.8)	(6.0)
Other operating income and expenses	0.0	0.0
Operating income	**131.1**	**136.2**
Operating expenses	**(29.9)**	**(25.7)**
Total risk costs	1.2	0.2
Profit before tax	**102.4**	**110.7**
Income taxes	–	–
Profit after tax	**102.4**	**110.7**
Non-controlling interests	–	–
Net profit	**102.4**	**110.7**

Source: BAWAG Group's Financial Statements.

10.6.2.5.1 Net Interest Income for the International Business Segment

Net interest income amounted to € 134.0 million in the financial year 2016, a decrease of € 8.2 million, or 5.8%, from € 142.2 million in the financial year 2015 as borrowers used favorable market conditions to refinance their loans, which led to slightly lower loan volumes at slightly lower margins.

10.6.2.5.2 Net Fee and Commission Income for the International Business Segment

Net fee and commission income remained fairly stable at € (0.1) million in the financial year 2016 and € 0.0 in the financial year 2015.

10.6.2.5.3 Core Revenues for the International Business Segment

Core revenues amounted to € 133.9 million in the financial year 2016, a decrease of € 8.3 million, or 5.8%, from € 142.2 million in the financial year 2015, due a decrease in net interest income by € 8.2 million.

10.6.2.5.4 Gains and Losses on Financial Instruments for the International Business Segment

Gains and losses on financial instruments amounted to € (2.8) million in the financial year 2016, a reduction of losses by € 3.2 million, or 53.3%, from € (6.0) million in the financial year 2015. Gains and losses on financial instruments allocated to the International Business segment were primarily driven by credit valuation adjustments and debt valuation adjustments for client derivative business for hedging and by the sale of loans and securities.

10.6.2.5.5 Other Operating Income and Expenses for the International Business Segment

Other operating income and expenses remained stable at € 0.0 million in the financial years 2016 and 2015.

10.6.2.5.6 Operating Income for the International Business Segment

Operating income amounted to € 131.1 million in the financial year 2016, a decrease of € 5.1 million, or 3.7%, from € 136.2 million in the financial year 2015. Better results in gains and losses on financial instruments (up by € 3.2 million compared to the financial year 2015) did not fully compensate for the decrease in core revenues (down by € 8.3 million compared to the financial year 2015).

10.6.2.5.7 Operating Expenses for the International Business Segment

Operating expenses amounted to € 29.9 million in the financial year 2016, an increase of € 4.2 million, or 16.3%, from € 25.7 million in the financial year 2015. This increase was caused by new hires and, consequently, higher personnel costs, to accommodate an increased number of transactions.

10.6.2.5.8 Total Risk Costs for the International Business Segment

Total risk costs showed a positive income of € 1.2 million in the financial year 2016, an increase of € 1.0 million from the positive income of € 0.2 million in the financial year 2015, due to fluctuating volumes and rating changes of IBNR claims and further aided by the absence of defaults.

10.6.2.5.9 Net Profit for the International Business Segment

Net profit amounted to € 102.4 million in the financial year 2016, a decrease of € 8.3 million, or 7.5%, from € 110.7 million in the financial year 2015.

10.6.2.6 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for the Treasury Services & Markets Segment

	For the financial years ended December 31,	
	2016	**2015**
	(audited)	
	(in € million)	
Net interest income	54.3	58.1
Net fee and commission income	0.0	0.0
Core revenues	**54.3**	**58.1**
Gains and losses on financial instruments	11.9	13.8
Other operating income and expenses	0.0	0.0
Operating income	**66.2**	**71.9**
Operating expenses	**(16.3)**	**(19.0)**
Total risk costs	(0.0)	0.0
Profit before tax	**49.9**	**52.9**
Income taxes	–	–
Profit after tax	**49.9**	**52.9**
Non-controlling interests	–	–
Net profit	**49.9**	**52.9**

Source: BAWAG Group's Financial Statements.

10.6.2.6.1 Net Interest Income for the Treasury Services & Markets Segment

Net interest income amounted to € 54.3 million in the financial year 2016, a decrease of € 3.8 million, or 6.5%, from € 58.1 million in the financial year 2015, primarily due to a decrease in average investment volumes.

10.6.2.6.2 Net Fee and Commission Income for the Treasury Services & Markets Segment

Net fee and commission income remained stable at € 0.0 million in the financial years 2016 and 2015.

10.6.2.6.3 Core Revenues for the Treasury Services & Markets Segment

Core revenues amounted to € 54.3 million in the financial year 2016, a decrease of € 3.8 million, or 6.5%, from € 58.1 million in the financial year 2015, due to a corresponding decrease of € 3.8 million in net interest income.

10.6.2.6.4 Gains and Losses on Financial Instruments for the Treasury Services & Markets Segment

Gains and losses on financial instruments amounted to € 11.9 million in the financial year 2016, a decrease of € 1.9 million, or 13.8%, from € 13.8 million in the financial year 2015, due to fewer sales in the course of managing the investment portfolio.

10.6.2.6.5 Other Operating Income and Expenses for the Treasury Services & Markets Segment

Other operating income and expenses remained stable at € 0.0 million in the financial years 2016 and 2015.

10.6.2.6.6 Operating Income for the Treasury Services & Markets Segment

Operating income amounted to € 66.2 million in the financial year 2016, a decrease of € 5.7 million, or 7.9%, from € 71.9 million in the financial year 2015, driven by decreases in core revenues (down by € 3.8 million) and gains and losses on financial instruments (down by € 1.9 million).

10.6.2.6.7 Operating Expenses for the Treasury Services & Markets Segment

Operating expenses decreased to € 16.3 million in the financial year 2016, a decrease of € 2.7 million, or 14.2%, from € 19.0 million in the financial year 2015 which was primarily due to the Treasury Services & Markets segment reducing the number of FTEs, thereby streamlining divisions and making certain risk systems, back office features and IT redundant, in order to improve efficiency.

10.6.2.6.8 Total Risk Costs for the Treasury Services & Markets Segment

Total risk costs remained stable at € 0.0 million in the financial years 2016 and 2015.

10.6.2.6.9 Net Profit for the Treasury Services & Markets Segment

Net profit amounted to € 49.9 million in the financial year 2016, a decrease of € 3.0 million, or 5.7% from € 52.9 million in the financial year 2015.

10.6.2.7 Comparison of the Financial Years Ended December 31, 2016, and December 31, 2015, for the Corporate Center Segment

	For the financial years ended December 31,	
	2016	**2015**
	(audited)	
	(in € million)	
Net interest income	(5.9)	34.1
Net fee and commission income	2.1	2.7
Core revenues	**(3.8)**	**36.8**
Gains and losses on financial instruments	8.2	45.4
Other operating income and expenses	48.4	(2.5)[1]
Operating income	**52.8**	**79.8**
Operating expenses	**(35.4)**	**(42.1)**
Regulatory charges	(31.4)	(30.5)
Total risk costs	(2.7)	(5.8)
Share of the profit or loss of associates accounted for using the equity method	8.0	(0.5)
Profit before tax	**(8.7)**	**0.9**
Income taxes	13.4	(24.1)
Profit after tax	**4.7**	**(23.2)**
Non-controlling interests	(0.2)	0.0
Net profit	**4.5**	**(23.2)**

1) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016 due to rounding differences.

Source: BAWAG Group's Financial Statements.

10.6.2.7.1 Net Interest Income for the Corporate Center Segment

Net interest income amounted to € (5.9) million in the financial year 2016, a decrease of € 40.0 million compared to € 34.1 million in the financial year 2015. Interest income, which is generated in the Corporate Center segment by providing asset liability management for BAWAG Group (specifically interest and liquidity funds transfer pricing) and by hedging activities in the market, was lower primarily due to the low-interest rate environment which was only partially offset by lower interest expense.

10.6.2.7.2 Net Fee and Commission Income for the Corporate Center Segment

Net fee and commission income amounted to € 2.1 million in the financial year 2016, a decrease of € 0.6 million, or 22.2%, from € 2.7 million in the financial year 2015, due to fluctuations in one-off payments and reconciliation positions.

10.6.2.7.3 Core Revenues for the Corporate Center Segment

Core revenues amounted to € (3.8) million in the financial year 2016, a decrease of € 40.6 million compared to € 36.8 million in the financial year 2015, primarily due to a substantial decrease of € 40.0 million in net interest income.

10.6.2.7.4 Gains and Losses on Financial Instruments for the Corporate Center Segment

Gains and losses on financial instruments amounted to € 8.2 million in the financial year 2016, a decrease of € 37.2 million, or 81.9%, compared to € 45.4 million in the financial year 2015. This was mainly due to lower gains from the sale of subsidiaries in the financial year 2016, with the participation in BAWAG Malta Bank Limited and Visa Europe Limited resulting in gains of € 4.2 million and € 4.5 million, respectively, and an additional payment of € 1.4 million for the former participation in ATV Privat-TV GmbH & Co. KG, whereas the financial year 2015 saw sales of BAWAG P.S.K. INVEST GmbH, BAWAG Allianz Vorsorgekasse AG and Österreichische Lotterien GmbH for € 37.5 million, € 17.6 million and € 7.7 million, respectively.

10.6.2.7.5 Other Operating Income and Expenses for the Corporate Center Segment

Other operating income and expenses increased to € 48.4 million in the financial year 2016, an increase of € 50.9 million compared to € (2.5) million in the financial year 2015. The increase was mainly driven by a consolidation result of € 126 million following the acquisitions of start:bausparkasse and IMMO-BANK reflecting the net amount of positive and negative temporary net present value effects caused by a current fair value valuation of all acquired assets and liabilities (see also "*10.2.2 Acquisition of start:bausparkasse and IMMO-BANK in the Financial Year 2016*"). This more than offset a one-off bank levy in the amount of € 41.0 million.

10.6.2.7.6 Operating Income for the Corporate Center Segment

Operating income amounted to € 52.8 million in the financial year 2016, a decrease of € 27.0 million, or 33.8%, from € 79.8 million in the financial year 2015. An increase in other operating income and expenses (up by € 50.9 million compared to the financial year 2015) did not compensate for the substantial decreases in core revenues (down by € 40.6 million compared to the financial year 2015) and gains and losses on financial instruments (down by € 37.2 million compared to the financial year 2015).

10.6.2.7.7 Operating Expenses for the Corporate Center Segment

Operating expenses decreased to € 35.4 million in the financial year 2016, a decrease of € 6.7 million, or 15.9%, compared to € 42.1 million in the financial year 2015 due to reduced one-time expenses for restructuring.

10.6.2.7.8 Regulatory Charges for the Corporate Center Segment

Regulatory charges amounted to € 31.4 million in the financial year 2016, an increase of € 0.9 million, or 3.0%, from € 30.5 million in the financial year 2015. This was due to slight increases in contributions to the SRF, up from € 5.7 million in the financial year 2015 to € 7.3 million in the financial year 2016, and supervisory charges, up from € 1.6 million in the financial year 2015 to € 2.3 million in the financial year 2016, while being partially offset by a decrease in bank levy, down from € 23.2 million in the financial year 2015 to € 21.8 million in the financial year 2016, due to a reduced tax base.

10.6.2.7.9 Total Risk Costs for the Corporate Center Segment

Total risk costs decreased to € 2.7 million in the financial year 2016, a decrease of € 3.1 million, or 53.4%, from € 5.8 million in the financial year 2015. The decrease was mainly driven by reduced costs for operational risk, which were down to € 2.5 million in the financial year 2016 compared to € 4.9 million in the financial year 2015, and lower legal costs.

10.6.2.7.10 Share of the Profit or Loss of Associates Accounted for Using the Equity Method for the Corporate Center Segment

The share of the profit or loss of associates accounted for using the equity method increased to € 8.0 million in the financial year 2016, an increase of € 8.5 million compared to € (0.5) million in the financial year 2015, and contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH.

10.6.2.7.11 Profit before Tax for the Corporate Center Segment

Profit before tax amounted to € (8.7) million in the financial year 2016, a decrease of € 9.6 million compared to € 0.9 million in the financial year 2015. This decrease was mainly a result of decreased operating income (down by € 27.0 million compared to the financial year 2015), which was not fully compensated for by decreased operating expenses (down by € 6.7 million compared to the financial year 2015) and an increased share of the profit or loss of associates accounted for using the equity method (up by € 8.5 million compared to the financial year 2015).

10.6.2.7.12 Income Taxes for the Corporate Center Segment

Income taxes amounted to a benefit of € 13.4 million in the financial year 2016, a decrease of € 37.5 million compared to € 24.1 million in the financial year 2015. The positive effect in the financial year 2016 was caused by the recognition of deferred tax assets on tax loss carryforwards in the amount of € 90.0 million, the majority of which reversed by the end of the financial year 2016.

10.6.2.7.13 Profit after Tax for the Corporate Center Segment

Profit after tax increased to € 4.7 million in the financial year 2016 compared to € (23.2) million in the financial year 2015, an increase of € 27.9 million.

10.6.2.7.14 Non-controlling Interests for the Corporate Center Segment

The profit after tax attributable to non-controlling interests amounted to € 0.2 million in the financial year 2016, an increase of € 0.2 million compared to € 0.0 million in the financial year 2015, mainly due to the acquisition of VB Leasing.

10.6.2.7.15 Net Profit for the Corporate Center Segment

Net profit increased to € 4.5 million in the financial year 2016 compared to € (23.2) million in the financial year 2015, an increase of € 27.7 million.

10.6.3 Comparison of the Financial Years ended December 31, 2015, and December 31, 2014

BAWAG Group:

	For the financial years ended December 31,	
	2015	**2014**
	(audited) **(in € million)**	
Interest income	1,051.3	1,089.9
Interest expense	(339.2)	(424.3)[1]
Dividend Income	10.2	9.8
Net interest income	**722.3**	**675.4**[1)2)]
Fee and commission income	292.3	302.0
Fee and commission expense	(106.4)	(104.2)
Net fee and commission income	**185.9**	**197.8**
Core revenues	**908.2**	**873.3**[1]
Gains and losses on financial assets and liabilities	64.8	35.9[3)4)5)]
Other operating income and expenses	(36.4)	(10.3)
thereof regulatory charges	(35.2)	(24.6)
Administrative expenses	(432.9)	(451.7)[1)6)]
thereof regulatory charges	(1.6)	(4.6)
Depreciation and amortization on tangible and intangible non-current assets	(38.9)	(47.6)
Risk costs	(45.8)	(84.3)[6]
Share of the profit or loss of associates accounted for using the equity method	(0.5)	0.9
Profit before tax	**418.5**	**316.2**[3)4)]
Income taxes	(24.1)	(0.5)
Profit after tax	**394.4**	**315.7**[3)4)]
Thereof attributable to non-controlling interests	0.0	0.7[3)4)7)]
Thereof attributable to owners of the parent	**394.4**	**315.0**[3)4)7)]

1) Interest expense was restated as per the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2015. Interest expense for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.

2) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015 due to rounding differences.

3) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

4) Gains and losses on financial instruments for BAWAG Group for the financial year 2014 as shown in the above table exclude € 2.8 million in valuation results attributable to shareholders of non-controlling interests, which were included in that line item on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

5) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014 due to rounding differences.

6) Numbers were restated as per the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial year 2015. Risk costs for BAWAG Group for the financial year 2014 as shown in the above table include provisions and expenses for operational risk in the amount of € 7.2 million, which were included in operating expenses on the profit or loss statement for BAWAG Group and the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.

7) Profit after tax attributable to non-controlling interests was restated to provide better comparability with the numbers for the financial years 2016 and 2015. Profit after tax attributable to non-controlling interests for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

Source: BAWAG Group's Financial Statements and Company information.

The segments in detail:

	BAWAG P.S.K. Retail		easygroup		DACH Corporates & Public Sector		International Business		Treasury Services & Markets		Corporate Center		Total	
	For the financial years ended December 31,													
	2015	2014[1]	2015	2014[1]	2015	2014[1]	2015	2014[1]	2015	2014[1]	2015	2014[1]	2015	2014
	(audited, unless otherwise indicated) (in € million)													
Net interest income	331.4	361.3	57.1	31.0	99.4	112.5	142.2	100.2	58.1	54.8	34.1	15.5	722.3	675.4[2]
Net fee and commission income	135.9	153.1	8.1	8.3	39.2	41.3	(0.0)	1.1	0.0	0.0	2.7	(6.1)	185.9	197.8
Core revenues	**467.3**	**514.4**	**65.2**	**39.3**	**138.6**	**153.9**	**142.2**	**101.4**	**58.1**	**54.8**	**36.8**	**9.4**	**908.2**	**873.3**[2]
Gains and losses on financial instruments	6.5	0.7	0.0	0.7	5.1	2.0	(6.0)	1.5	13.8	24.8	45.4	6.2	64.8	35.9[1][3][4]
Other operating income and expenses	1.1	1.7	0.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	(2.5)[5]	10.4	(1.2)	(14.3)
Operating income	**474.9**	**516.8**	**65.3**	**42.3**	**143.7**	**155.9**	**136.2**	**102.8**	**71.9**	**79.7**	**79.8**	**26.0**	**971.8**	**923.6**[2][3]
Operating expenses	**(303.2)**	**(345.5)**	**(23.4)**	**(23.2)**	**(56.8)**	**(59.3)**	**(25.7)**	**(21.7)**	**(19.0)**	**(21.6)**	**(42.1)**	**(23.5)**	**(470.2)**[6]	**(499.3)**[2][7][8]
Regulatory charges	(6.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(30.5)	(29.2)	(36.8)[6]	(29.3)[1][7]
Total risk costs	(33.9)	(40.1)	0.1	(1.4)	(6.4)	(34.8)	0.2	0.0	0.0	0.0	(5.8)	(8.3)	(45.8)	(84.3)[8]
Share of the profit or loss of associates accounted for using the equity method	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)	0.9	(0.5)	0.9
Profit before tax	**131.5**	**131.2**	**42.0**	**17.7**	**80.5**	**61.8**	**110.7**	**81.4**	**52.9**	**58.1**	**0.9**	**(34.1)**	**418.5**	**316.2**[3]
Income taxes	–	–	–	–	–	–	–	–	–	–	(24.1)	(0.5)	(24.1)	(0.5)
Profit after tax	**131.5**	**131.2**	**42.0**	**17.7**	**80.5**	**61.8**	**110.7**	**81.4**	**52.9**	**58.1**	**(23.2)**	**(34.6)**	**394.4**	**315.7**[3]
Non-controlling interests	–	–	–	–	–	–	–	–	–	–	(0.0)	(0.7)	(0.0)	(0.7)[1][3][9]
Net profit	**131.5**	**131.2**	**42.0**	**17.7**	**80.5**	**61.8**	**110.7**	**81.4**	**52.9**	**58.1**	**(23.2)**	**(35.3)**	**394.4**	**315.0**[1][3][9]

1) Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Net interest income was restated as per the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015. Net interest income for BAWAG Group for the financial year 2014 as shown in the above table includes provisions for interest expense for social capital in the amount of € 14.8 million, which were included in operating expenses on the profit or loss statement for BAWAG Group and the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014. This adjustment was made to better reflect the effects of changing interest rates on interest expense for social capital.
3) Gains and losses on financial instruments for BAWAG Group for the financial year 2014 as shown in the above table exclude € 2.8 million in valuation results attributable to shareholders of non-controlling interests, which were included in that line item on the profit or loss statement for BAWAG Group in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.
4) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014 due to rounding differences.
5) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016 due to rounding differences.
6) Numbers were restated as per the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016. Regulatory charges for BAWAG Group for the financial year 2015 as shown in the above table include € 1.6 million, which were included in operating expenses for the purpose of note 5 to the consolidated financial statements in the Audited Consolidated Financial Statements as of and for the financial years 2016 and 2015 and in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015.
7) Regulatory charges for BAWAG Group for the financial year 2014 as shown in the above table include € 4.6 million of supervisory charges, which were included in operating expenses for the purpose of note 5 to the consolidated financial statements in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014 and in the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.
8) Numbers were restated as per the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2015. Total risk costs for BAWAG Group for the financial year 2014 as shown in the above table include € 7.2 million in operational risk, which were included in operating expenses on the profit or loss statement for BAWAG Group and the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2014.
9) Profit after tax attributable to non-controlling interests was restated to provide better comparability with the numbers for the financial years 2016 and 2015. Profit after tax attributable to non-controlling interests for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

Source: BAWAG Group's Financial Statements and Company information.

10.6.3.1 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for BAWAG Group

10.6.3.1.1 Interest Income for BAWAG Group

Interest income amounted to € 1,051.3 million in the financial year 2015, a decrease of € 38.6 million, or 3.5%, compared to € 1,089.9 million in the financial year 2014.

Increases in interest income from loans and receivables by € 13.0 million (up 2.0% from the financial year 2014), from derivatives (hedge accounting, interest rate risk) by € 10.8 million (up 8.7% from the financial year 2014), from held-to-maturity investments by € 5.2 million (up 13.9% from the financial year 2014) and from other assets by € 0.2 million mainly resulted from increased volumes in the International Business segment, but only partly compensated for decreases in interest income from available-for-sale financial assets by € 33.3 million (down 27.2% from the financial year 2014), from financial assets held for trading by € 21.5 million (down 15.6% from the financial year 2014), from financial assets designated at fair value through profit or loss by € 12.8 million (down 53.8% from the financial year 2014) and from cash reserves by € 0.2 million (down 66.7% from the financial year 2014).

10.6.3.1.2 Interest Expense for BAWAG Group

Interest expense decreased to € 339.2 million in the financial year 2015, a decrease of € 85.1 million, or 20.1%, from € 424.3 million in the financial year 2014.

As the low-interest rate environment allowed BAWAG Group to lower the interest rates on client deposits throughout the whole product suite to a minimum, interest expense from financial liabilities measured at amortized cost decreased by € 32.8 million (down 13.9% from the financial year 2014), interest expense from financial liabilities designated at fair value through profit or loss decreased by € 32.1 million (down 39.5% from the financial year 2014) and interest expense from financial liabilities held for trading decreased € 15.1 million (down 26.9% from the financial year 2014). In addition, interest expense from provisions for social capital decreased by € 5.0 million (down 33.8% from the financial year 2014) and interest expense from derivatives (hedge accounting, interest rate risk) decreased by € 0.6 million (down 1.7% from the financial year 2014). Only interest expense from deposits from central banks increased by € 0.5 million compared to the financial year 2014.

10.6.3.1.3 Dividend Income for BAWAG Group

Dividend income increased to € 10.2 million in the financial year 2015, an increase of € 0.4 million, or 4.1%, from € 9.8 million in the financial year 2014, primarily due to an increase in income from equity investments.

10.6.3.1.4 Net Interest Income for BAWAG Group

Net interest income increased to € 722.3 million in the financial year 2015, an increase of € 46.9 million, or 6.9%, compared to € 675.4 million in the financial year 2014, driven primarily by liability optimization measures and increased core asset yields and volumes. These actions reduced interest expense, while customer loan development remained stable, creating favorable earnings leverage.

Net interest income was generated by the various segments as follows: BAWAG P.S.K. Retail contributed € 331.4 million, International Business € 142.2 million, DACH Corporates & Public Sector € 99.4 million, Treasury Services & Markets € 58.1 million, easygroup € 57.1 million and Corporate Center € 34.1 million. This equates to increases of € 42.0 million for International Business (up 41.9% from the financial year 2014), € 26.1 million for easygroup (up 84.2% from the financial year 2014), € 18.6 million for Corporate Center (up 120.0% from the financial year 2014) and € 3.3 million for Treasury Services & Markets (up 6.0% from the financial year 2014) as well as decreases of € 29.9 million for BAWAG P.S.K. Retail (down 8.3% from the financial year 2014) and € 13.1 million for DACH Corporates & Public Sector (down 11.6% from the financial year 2014).

10.6.3.1.5 Fee and Commission Income for BAWAG Group

Fee and commission income amounted to € 292.3 million in the financial year 2015, a decrease of € 9.7 million, or 3.2%, from € 302.0 million in the financial year 2014.

Income from payment transfers was down by € 6.4 million (down 3.6% from the financial year 2014), from securities and custody business by € 4.0 million (down 6.4% from the financial year 2014) and from lending by € 2.5 million (down 9.0% from the financial year 2014) while income from other services slightly increased by € 3.2 million (up 9.7% from the financial year 2014).

10.6.3.1.6 Fee and Commission Expense for BAWAG Group

Fee and commission expenses amounted to € 106.4 million in the financial year 2015, an increase of € 2.2 million, or 2.1%, from € 104.2 million in the financial year 2014.

Expenses from securities and custody business decreased by € 6.6 million (down 57.4% from the financial year 2014), primarily due to the sale of BAWAG P.S.K. INVEST GmbH in February 2015. Expenses from payment transfer decreased by € 1.2 million (down 3.0% from the financial year 2014) and expenses from lending also decreased by € 0.3 million (down 13.6% from the financial year 2014). The overall increase was partly driven by a € 10.3 million increase in other fee and commission expenses (up 20.2% from the financial year 2014), due to the creation of a provision in the financial year 2015 that was released in the financial year 2016.

10.6.3.1.7 Net Fee and Commission Income for BAWAG Group

Net fee and commission income amounted to € 185.9 million in the financial year 2015, a decrease of € 11.9 million, or 6.0%, from € 197.8 million in the financial year 2014.

The biggest share was contributed by BAWAG P.S.K. Retail, € 135.9 million, although the BAWAG P.S.K. Retail segment experienced a decrease of € 17.2 million (down 11.2% from the financial year 2014). Likewise, net fee and commission income decreased to € 39.2 million for DACH Corporates & Public Sector, a decrease of € 2.1 million (down 5.1% from the financial year 2014), to € 8.1 million for easygroup, a decrease of € 0.2 million (down 2.4% from the financial year 2014), and to € 0.0 million for International Business, a decrease of € 1.1 million (down 100.0% from the financial year 2014). Corporate Center income increased to € 2.7 million, an increase of € 8.8 million compared to the financial year 2014, while Treasury Services & Markets did not record any net fee and commission income, as in the financial year 2014.

The overall decrease was primarily due to higher one-time bonus payments from cooperation partners during the financial year 2014 and the impact from the sale of BAWAG P.S.K. INVEST GmbH, BAWAG Group's captive asset manager, in February 2015 while the ongoing business produced stable income.

10.6.3.1.8 Core Revenues for BAWAG Group

Core revenues increased to € 908.2 million in the financial year 2015, an increase of € 34.9 million, or 4.0%, from € 873.3 million in the financial year 2014. More than half of that amount, € 467.3 million, was generated by BAWAG P.S.K. Retail, followed by International Business with € 142.2 million, DACH Corporates & Public Sector with € 138.6 million, easygroup with € 65.2 million, Treasury Services & Markets with € 58.1 million and Corporate Center with € 36.8 million.

The overall increase, however, was driven by increases of € 40.8 million in International Business (up 40.2% from the financial year 2014), € 27.4 million in Corporate Center (up 291.5% from the financial year 2014), € 25.9 million in easygroup (up 65.9% from the financial year 2014) and € 3.3 million in Treasury Services & Markets (up 6.0% from the financial year 2014). By contrast, core revenues of BAWAG P.S.K. Retail and DACH Corporates & Public Sector decreased by € 47.1 million (down 9.2% from the financial year 2014) and € 15.3 million (down 9.9% from the financial year 2014), respectively.

10.6.3.1.9 Gains and Losses on Financial Assets and Liabilities for BAWAG Group

Gains and losses on financial assets and liabilities increased to € 64.8 million in the financial year 2015, an increase of € 28.9 million, or 80.5%, from € 35.9 million in the financial year 2014, reflecting primarily the positive valuation and sales of BAWAG Group's investments, the sales of subsidiaries, issued securities and derivative transactions for customers.

This development was driven by realized gains on financial assets and liabilities not measured at fair value through profit or loss that increased to € 104.1 million, an increase of € 39.8 million or 61.9% compared to the financial year 2014). This increase mainly relates to profits from the sale of subsidiaries and participations. Additionally, gains on financial assets and liabilities at fair value through profit or loss increased by € 53.7 million, though corresponding losses on financial assets and liabilities held for trading increased by € 62.5 million (up 589.6% from the financial year 2014). The losses were caused by monetized hedging transactions with regard to the sale of securities made in the financial year 2015. Further, gains from exchange differences decreased by € 2.3 million (down 33.8% from the financial year 2014). Gains from fair value hedge accounting also decreased by € 2.6 million (down 72.2% from the financial year 2014).

10.6.3.1.10 Other Operating Income and Expenses for BAWAG Group

Other operating income and expenses amounted to € (36.4) million in the financial year 2015, an increase in expenses of € 26.1 million, or 253.4%, from € (10.3) million in the financial year 2014.

Increased gains from the sale of property, plant and equipment, up by € 4.5 million to € 7.6 million (up 145.2% from the financial year 2014) did not compensate for increased regulatory charges of € 35.2 million, up by € 10.6 million, or 43.1%, from the financial year 2014, increased losses from the sale of property, plant and equipment of € 6.5 million, up by € 6.0 million, or 1200.0%, from the financial year 2014 and other income and expenses falling to € (2.2) million, down € 14.7 million, or 117.6%, from the financial year 2014. Also, net income from investment properties was € (0.1) million, a reduction of € 0.7 million, or 87.5% compared to the financial year 2014, though expenses relating to investment properties fell to € 0.9 million, down € 0.3 million, or 25.0%, from the financial year 2014, and income from investment properties increased to € 0.8 million, up € 0.4 million, or 100.0%, from the financial year 2014.

10.6.3.1.11 Administrative Expenses for BAWAG Group

Administrative expenses decreased to € 432.9 million in the financial year 2015, a decrease of € 18.8 million, or 4.2%, from € 451.7 million in the financial year 2014. Expenses for operational risk were reclassified in the financial year 2015 from administrative expenses to risk costs to provide greater transparency for operational risk.

Lower administrative expenses resulted from decreases in staff costs by € 34.1 million (down 12.0% from the financial year 2014), caused by a reduction in FTE, and other administrative expenses by € 15.5 million (down 8.7% from the financial year 2014), as BAWAG Group implemented leaner and automated processes and simplified the product suite. Due to these measures, restructuring and other one-off expenses, on the other hand, increased by € 30.8 million.

10.6.3.1.12 Depreciation and Amortization on Tangible and Intangible Non-Current Assets for BAWAG Group

Depreciation and amortization on tangible and intangible non-current assets decreased to € 38.9 million in the financial year 2015, a decrease of € 8.7 million, or 18.3%, from € 47.6 million in the financial year 2014.

Decreased depreciation and amortization was largely due to a decrease of € 10.6 million in amortization of brand name and customer relationships (down 62.7% from the financial year 2014), with a further decrease of € 2.0 million in depreciation of property, plant and equipment (down 16.3% from the financial year 2014) though amortization for software and other intangible assets increased by € 3.9 million (up 21.2% from the financial year 2014).

10.6.3.1.13 Risk Costs for BAWAG Group

Risk costs decreased to € 45.8 million in the financial year 2015, a decrease of € 38.5 million, or 45.7%, from € 84.3 million in the financial year 2014. The majority of risk costs were allocated to the BAWAG P.S.K. Retail segment, with € 33.9 million, followed by DACH Corporates & Public Sector, with € 6.4 million, and Corporate Center, with € 5.8 million. International Business and easygroup recorded positive income of € 0.2 million and € 0.1 million, respectively.

The decrease in risk costs resulted from the improved credit quality of the core businesses and positive effects from the prior years' de-risking activities. Expenses for operational risk were reclassified from administrative expenses to risk costs to provide greater transparency for operational risk.

Loan loss provisions of loans and receivables decreased by € 43.8 million (down 54.9% from the financial year 2014) and impairment losses on financial assets decreased by € 3.4 million (down 75.6% from the financial year 2014), though costs from changes in provisions for off-balance sheet credit increased by € 8.1 million and provisions and expenses for operational risk increased by € 0.6 million (up 8.3% from the financial year 2014).

With regard to the segments, this development was mainly driven by a decrease in risk costs of DACH Corporates & Public Sector by € 28.4 million (down 81.6% from the financial year 2014). Risk costs associated with BAWAG P.S.K. Retail, Corporate Center and easygroup also decreased by € 6.2 million (down 15.5% from the financial year 2014), € 2.5 million (down 30.1% from the financial year 2014) and € 1.5 million, respectively. Only the International Business segment saw an increase of € 0.2 million.

10.6.3.1.14 Share of the Profit or Loss of Associates Accounted for Using the Equity Method for BAWAG Group

The share of the profit or loss of associates accounted for using the equity method amounted to € (0.5) million in the financial year 2015, a decrease of € 1.4 million, or 155.6%, from € 0.9 million in the financial year 2014. The loss was allocated to the Corporate Center and was mainly caused by an impairment of the goodwill in BAWAG P.S.K. Versicherung AG in the amount of € 5.1 million.

10.6.3.1.15 Profit before Tax for BAWAG Group

Profit before tax increased to € 418.5 million in the financial year 2015, an increase of € 102.3 million, or 32.4%, compared to € 316.2 million in the financial year 2014.

10.6.3.1.16 Income Taxes for BAWAG Group

Income taxes amounted to € 24.1 million in the financial year 2015, an increase of € 23.6 million, or 4720.0%, from € 0.5 million in the financial year 2014, mainly due to deferred tax expenses from the sale of equity investments.

10.6.3.1.17 Profit after Tax for BAWAG Group

Profit after tax increased to € 394.4 million in the financial year 2015, an increase of € 78.7 million, or 24.9%, from € 315.7 million in the financial year 2014.

10.6.3.1.18 Non-controlling Interests for BAWAG Group

Profit after tax attributable to non-controlling interests amounted to € 0.0 million in the financial year 2015, a decrease of € 0.7 million, or 100.0%, from € 0.7 million in the financial year 2014.

10.6.3.1.19 Net Profit for BAWAG Group

Net profit increased to € 394.4 million in the financial year 2015, an increase of € 79.0 million, or 25.1%, compared to € 315.0 million in the financial year 2014.

10.6.3.2 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for the BAWAG P.S.K. Retail Segment

	For the financial years ended December 31,	
	2015	**2014**
	(audited) (in € million)	**(unaudited) (in € million)**
Net interest income	331.4	361.3
Net fee and commission income	135.9	153.1
Core revenues	**467.3**	**514.4**
Gains and losses on financial instruments	6.5	0.7
Other operating income and expenses	1.1	1.7
Operating income	**474.9**	**516.8**
Operating expenses	**(303.2)**	**(345.5)**
Regulatory charges	(6.3)	0.0
Total risk costs	(33.9)	(40.1)
Profit before tax	**131.5**	**131.2**
Income taxes	–	–
Profit after tax	**131.5**	**131.2**
Non-controlling interests	–	–
Net profit	**131.5**	**131.2**

Source: BAWAG Group's Financial Statements.

10.6.3.2.1 Net Interest Income for the BAWAG P.S.K. Retail Segment

Net interest income decreased to € 331.4 million in the financial year 2015, a decrease of € 29.9 million, or 8.3%, compared to € 361.3 million in the financial year 2014.

Interest income experienced pressure from the low-interest rate environment, especially because a substantial part of BAWAG P.S.K. Retail's consumer loans have floating interest rates. While the laws of Austria do not allow isolated interest floor provisions in floating interest rate loan agreements, BAWAG P.S.K. Retail addressed this by including both an interest floor (0%) and a cap (4.5%) in all new floating interest rate loans. Further, BAWAG P.S.K. Retail incentivized clients to shift from loans denominated in CHF to loans denominated in EUR, which offer a higher yield at equal or slightly higher margins, by offering one-time payments of up to € 10,000 (depending on the size of the loan). BAWAG P.S.K. Retail also established a clear-cut pricing framework that calls for a central pricing committee to set minimum margins and that does not allow for an individual branch to overrule such pricing.

On the expense side, the blended annual yield was down from 0.59% in the financial year 2014 to 0.31% in the financial year 2015. BAWAG P.S.K. Retail's customers continued to shift from fixed interest to variable savings products because, under Austrian law, banks are not allowed to charge negative interest rates on consumer deposits and, thus, in the current low interest rate environment fixed and variable rate deposits have approximately the same interest rates, but variable rate products offer customers the benefit of potential rate increases and little risk of potential rate decreases, thus, eliminating the incentive for customers to choose fixed rate deposits over variable rate deposits. BAWAG P.S.K. Retail was not only on focusing on the pricing of its savings accounts and on customers with fixed-term saving accounts (*Kreditsparbuch*), but also on relationships and products which it believes to be of higher value.

10.6.3.2.2 Net Fee and Commission Income for the BAWAG P.S.K. Retail Segment

Net fee and commission income decreased to € 135.9 million in the financial year 2015, a decrease of € 17.2 million, or 11.2%, compared to € 153.1 million in the financial year 2014.

Lower sales in securities and insurances led to an overall decrease in net fee and commission income that was partly offset by increased income generated by the new current account model, KontoBox, as well as higher sales of payment protection insurance products and higher fees due to a larger number of loans originated.

10.6.3.2.3 Core Revenues for the BAWAG P.S.K. Retail Segment

Core revenues decreased to € 467.3 million in the financial year 2015, a decrease of € 47.1 million, or 9.2%, from € 514.4 million in the financial year 2014, reflecting decreases of € 29.9 million in net interest income and € 17.2 million in net fee and commission income.

10.6.3.2.4 Gains and Losses on Financial Instruments for the BAWAG P.S.K. Retail Segment

Gains and losses on financial instruments increased to € 6.5 million in the financial year 2015, an increase of € 5.8 million, or 828.6% compared to € 0.7 million in the financial year 2014. Gains and losses on financial instruments allocated to the BAWAG P.S.K. Retail segment were primarily driven by foreign exchange gains and losses as well as results from the sale of NPLs.

10.6.3.2.5 Other Operating Income and Expenses for the BAWAG P.S.K. Retail Segment

Other operating income and expenses decreased to € 1.1 million in the financial year 2015, a decrease of € 0.6 million, or 35.3%, compared to € 1.7 million in the financial year 2014, primarily relating to effects from the derecognition of liabilities in connection with dormant accounts.

10.6.3.2.6 Operating Income for the BAWAG P.S.K. Retail Segment

Operating income decreased to € 474.9 million in the financial year 2015, a decrease of € 41.9 million, or 8.1%, compared to € 516.8 million in the financial year 2014, mainly due to a decrease in core revenues of € 47.1 million, which was partially offset by an increase of € 5.8 million in gains on financial instruments.

10.6.3.2.7 Operating Expenses for the BAWAG P.S.K. Retail Segment

Operating expenses decreased to € 303.2 million in the financial year 2015, a decrease of € 42.3 million, or 12.2%, from € 345.5 million in the financial year 2014, as BAWAG P.S.K. Retail streamlined the branch network, reduced retail overhead, optimized general and administrative expenses, integrated servicing of small business into the branch network and introduced an integrated advisory front-end (GATE).

10.6.3.2.8 Regulatory Charges for the BAWAG P.S.K. Retail Segment

Regulatory charges amounted to € 6.3 million in the financial year 2015. Regulatory charges were allocated to the relevant segments apart from Corporate Center for the first time in the financial year 2015.

10.6.3.2.9 Total Risk Costs for the BAWAG P.S.K. Retail Segment

Total risk costs decreased to € 33.9 million in the financial year 2015, a decrease of € 6.2 million, or 15.5%, compared to € 40.1 million in the financial year 2014. The decrease in risk costs was triggered, in part, by an increase in automated scoring decisions, which tightened the underwriting standards of BAWAG P.S.K. Retail, and, also, by an adjustment of the provisioning policy of BAWAG Group that was phased in in the financial year 2015. After building a comprehensive data base, estimated recoveries were taken into account more accurately and BAWAG Group no longer provisioned 100% of the book value of the unsecured portion of NPLs, but rather only 80%, reflecting observed recoveries.

10.6.3.2.10 Net Profit for the BAWAG P.S.K. Retail Segment

Net profit increased to € 131.5 million in the financial year 2015, an increase of € 0.3 million, or 0.2%, compared to € 131.2 million in the financial year 2014.

10.6.3.3 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for the easygroup Segment

	For the financial years ended December 31,	
	2015	**2014**
	(audited) **(in € million)**	**(unaudited)** **(in € million)**
Net interest income	57.1	31.0
Net fee and commission income	8.1	8.3
Core revenues	**65.2**	**39.3**
Gains and losses on financial instruments	0.0	0.7
Other operating income and expenses	0.1	2.3
Operating income	**65.3**	**42.3**
Operating expenses	**(23.4)**	**(23.2)**
Regulatory charges	–	–
Total risk costs	0.1	(1.4)
Profit before tax	**42.0**	**17.7**
Income taxes	–	–
Profit after tax	**42.0**	**17.7**
Non-controlling interests	–	–
Net profit	**42.0**	**17.7**

Source: BAWAG Group's Financial Statements.

10.6.3.3.1 Net Interest Income for the easygroup Segment

Net interest income increased to € 57.1 million in the financial year 2015, an increase of € 26.1 million, or 84.2%, compared to € 31.0 million in the financial year 2014.

Net interest income was boosted by the acquisition of VB Leasing in October 2015 and the acquisition of the U.K. Mortgage Loan Portfolio in December 2015, which contributed € 5.0 million and € 3.0 million, respectively, to net interest income in the financial year 2015. Further, net interest income increased as a result of a repricing of deposits and a substantial increase of deposit volumes due to organic growth. Despite said increase in deposit volume, interest expense declined both in absolute terms as well as with regard to blended annual yield, which decreased from 0.74% in the financial year 2014 to 0.53% in the financial year 2015 due to the low interest rate environment.

10.6.3.3.2 Net Fee and Commission Income for the easygroup Segment

Net fee and commission income remained largely stable and decreased to € 8.1 million in the financial year 2015, a decrease of € 0.2 million, or 2.4%, compared to € 8.3 million in the financial year 2014.

10.6.3.3.3 Core Revenues for the easygroup Segment

Core revenues increased to € 65.2 million in the financial year 2015, an increase of € 25.9 million, or 65.9%, from € 39.3 million in the financial year 2014, mainly driven by the increase in net interest income of € 26.1 million.

10.6.3.3.4 Gains and Losses on Financial Instruments for the easygroup Segment

Gains and losses on financial instruments decreased to € 0.0 million in the financial year 2015, a decrease of € 0.7 million, or 100.0%, compared to € 0.7 million in the financial year 2014. Gains and losses on financial instruments allocated to the easygroup segment were primarily driven by results from the sale of NPLs.

10.6.3.3.5 Other Operating Income and Expenses for the easygroup Segment

Other operating income and expenses decreased to € 0.1 million in the financial year 2015, a decrease of € 2.2 million, or 95.7%, compared to € 2.3 million in the financial year 2014, due to payments in connection with the partnership with Shell exceeding income from dormant accounts.

10.6.3.3.6 Operating Income for the easygroup Segment

Operating income increased to € 65.3 million in the financial year 2015, an increase of € 23.0 million, or 54.4%, from € 42.3 million in the financial year 2014, driven by the increase in core revenues.

10.6.3.3.7 Operating Expenses for the easygroup Segment

Operating expenses remained largely stable and increased to € 23.4 million in the financial year 2015, an increase of € 0.2 million, or 0.9%, compared to € 23.2 million in the financial year 2014. The increase resulted from the acquisition of VB Leasing.

10.6.3.3.8 Total Risk Costs for the easygroup Segment

Total risk costs recorded positive income of € 0.1 million in the financial year 2015, an increase of € 1.5 million compared to costs in the amount of € 1.4 million in the financial year 2014. This resulted from the integration of VB Leasing and the alignment of its provisioning methodology to the easygroup segment's standard. Risk costs in the other portfolios remained largely stable.

10.6.3.3.9 Net Profit for the easygroup Segment

Net profit increased to € 42.0 million in the financial year 2015, an increase of € 24.3 million, or 137.3%, compared to € 17.7 million in the financial year 2014.

10.6.3.4 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for the DACH Corporates & Public Sector Segment

	For the financial years ended December 31,	
	2015	**2014**
	(audited) (in € million)	**(unaudited) (in € million)**
Net interest income	99.4	112.5
Net fee and commission income	39.2	41.3
Core revenues	**138.6**	**153.9**
Gains and losses on financial instruments	5.1	2.0
Other operating income and expenses	0.0	0.0
Operating income	**143.7**	**155.9**
Operating expenses	**(56.8)**	**(59.3)**
Total risk costs	(6.4)	(34.8)
Profit before tax	**80.5**	**61.8**
Income taxes	–	–
Profit after tax	**80.5**	**61.8**
Non-controlling interests	–	–
Net profit	**80.5**	**61.8**

Source: BAWAG Group's Financial Statements.

10.6.3.4.1 Net Interest Income for the DACH Corporates & Public Sector Segment

Net interest income decreased to € 99.4 million in the financial year 2015, a decrease of € 13.1 million, or 11.6%, compared to € 112.5 million in the financial year 2014.

On the one hand, interest income experienced margin pressure due to the low interest rate market environment, given that the majority of loans in the DACH Corporates & Public Sector segment's portfolio have variable interest rates. Additionally, self-imposed pricing discipline caused lower loan volumes. On the other hand, higher deposit volumes led to increased interest expense. Because of a significant number of historic term deposits with fixed interest rates for "old money" (i.e., deposits for which certain fixed interest rates were already agreed and in relation to which, therefore, interest rate adjustments were not possible), a repricing of current accounts and term deposits with floating interest rates was not enough to compensate for the increase in interest expense.

10.6.3.4.2 Net Fee and Commission Income for the DACH Corporates & Public Sector Segment

Net fee and commission income decreased to € 39.2 million in the financial year 2015, a decrease of € 2.1 million, or 5.1%, compared to € 41.3 million in the financial year 2014.

The development was caused by the decision to consolidate the market share of DACH Corporates & Public Sector in a competitive market with strong pricing competition by defending existing customer relationships, which lead to price reductions in individual cases, as well as by acquiring only select new customers. More than 90% of the net fee and commission income is generated by fees for payment services.

10.6.3.4.3 Core Revenues for the DACH Corporates & Public Sector Segment

Core revenues decreased to € 138.6 million in the financial year 2015, a decrease of € 15.3 million, or 10.0%, compared to € 153.9 million in the financial year 2014, primarily driven by the decrease in net interest income of € 13.1 million.

10.6.3.4.4 Gains and Losses on Financial Instruments for the DACH Corporates & Public Sector Segment

Gains and losses on financial instruments increased to € 5.1 million in the financial year 2015, an increase of € 3.1 million, or 155.0%, from € 2.0 million in the financial year 2014. Gains and losses on financial instruments allocated to the DACH Corporates & Public Sector segment were primarily driven by results from the sale of receivables and valuation results.

10.6.3.4.5 Other Operating Income and Expenses for the DACH Corporates & Public Sector Segment

Other operating income and expense remained stable at € 0.0 million in the financial years 2015 and 2014.

10.6.3.4.6 Operating Income for the DACH Corporates & Public Sector Segment

Operating income decreased to € 143.7 million in the financial year 2015, a decrease of € 12.2 million, or 7.8% compared to € 155.9 million in the financial year 2014, mainly due to the decrease of € 15.3 million in core revenues that was only partially offset by an increase in gains and losses on financial instruments.

10.6.3.4.7 Operating Expenses for the DACH Corporates & Public Sector Segment

Operating expenses decreased to € 56.8 million in the financial year 2015, a decrease of € 2.5 million, or 4.2%, compared to € 59.3 million in the financial year 2014. This development was due to DACH Corporates & Public Sector's exit from business in CEE Countries, the organizational structure being streamlined and the establishment of a centralized back-office for sales. Relationships with non-core clients were discontinued as DACH Corporates & Public Sector focused on primary clients.

10.6.3.4.8 Total Risk Costs for the DACH Corporates & Public Sector Segment

Total risk costs decreased to € 6.4 million in the financial year 2015, a decrease of € 28.4 million, or 81.6%, compared to € 34.8 million in the financial year 2014. The decrease was driven by BAWAG Group's risk policy, reduced loan exposures, specifically with regard to CEE Countries, and low new business originations, which led to no material new defaults in the financial year 2015.

10.6.3.4.9 Net Profit for the DACH Corporates & Public Sector Segment

Net profit increased to € 80.5 million in the financial year 2015, an increase of € 18.7 million, or 30.3%, from € 61.8 million in the financial year 2014.

10.6.3.5 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for the International Business Segment

	For the financial years ended December 31,	
	2015	**2014**
	(audited) (in € million)	**(unaudited) (in € million)**
Net interest income	142.2	100.2
Net fee and commission income	(0.0)	1.1
Core revenues	**142.2**	**101.4**
Gains and losses on financial instruments	(6.0)	1.5
Other operating income and expenses	0.0	0.0
Operating income	**136.2**	**102.8**
Operating expenses	**(25.7)**	**(21.7)**
Total risk costs	0.2	0.3
Profit before tax	**110.7**	**81.4**
Income taxes	–	–
Profit after tax	**110.7**	**81.4**
Non-controlling interests	–	–
Net profit	**110.7**	**81.4**

Source: BAWAG Group's Financial Statements.

10.6.3.5.1 Net Interest Income for the International Business Segment

Net interest income increased to € 142.2 million in the financial year 2015, an increase of € 42.0 million, or 41.9%, compared to € 100.2 million in the financial year 2014, mainly due to an increase in loan volumes as the International Business segment profited from the niche market mid-size tickets, contacts to sponsors (e.g., funds that invest in NPL portfolios) and fast decision processes.

10.6.3.5.2 Net Fee and Commission Income for the International Business Segment

Net fee and commission income decreased to € 0.0 million in the financial year 2015, a decrease of € 1.1 million, or 100.0%, compared to € 1.1 million in the financial year 2014. Generally speaking, the International Business Segment does not generate net fee and commission income. The result in the financial year 2014 was caused by a one-time effect.

10.6.3.5.3 Core Revenues for the International Business Segment

Core revenues increased to € 142.2 million in the financial year 2015, an increase of € 40.8 million, or 40.2%, compared to € 101.4 million in the financial year 2014, driven by the increase of € 42.0 million in net interest income that was slightly offset by decreased net fee and commission income.

10.6.3.5.4 Gains and Losses on Financial Instruments for the International Business Segment

Gains and losses on financial instruments recorded losses of € 6.0 million in the financial year 2015, a decrease of € 7.5 million compared to gains of € 1.5 million in the financial year 2014. Gains and losses on financial instruments allocated to the International Business segment were primarily driven by results from the sale of loans and securities net of hedging costs.

10.6.3.5.5 Other Operating Income and Expenses for the International Business Segment

Other operating income and expenses remained stable at € 0.0 million in the financial years 2015 and 2014.

10.6.3.5.6 Operating Income for the International Business Segment

Operating income increased to € 136.2 million in the financial year 2015, an increase of € 33.4 million, or 32.5%, compared to € 102.8 million in the financial year 2014, primarily due to increased core revenues that were up € 40.8 million in the financial year 2015.

10.6.3.5.7 Operating Expenses for the International Business Segment

Operating expenses increased to € 25.7 million in the financial year 2015, an increase of € 4.0 million, or 18.4%, from € 21.7 million in the financial year 2014, mainly due to new hires and, consequently, higher personnel costs, to accommodate an increased number of transactions.

10.6.3.5.8 Total Risk Costs for the International Business Segment

Total risk costs recorded a slight decrease in positive income to € 0.2 million in the financial year 2015, a decrease of € 0.1 million, or 33.3%, compared to income of € 0.3 million in the financial year 2014. Low risk costs were driven by a lack of defaults which in combination with fluctuation in volumes and rating changes of IBNR losses caused positive income.

10.6.3.5.9 Net Profit for the International Business Segment

Net profit increased to € 110.7 million in the financial year 2015, an increase of € 29.3 million, or 36.0%, compared to € 81.4 million in the financial year 2014.

10.6.3.6 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for the Treasury Services & Markets Segment

	For the financial years ended December 31,	
	2015	2014
	(audited) (in € million)	(unaudited) (in € million)
Net interest income	58.1	54.8
Net fee and commission income	0.0	0.0
Core revenues	**58.1**	**54.8**
Gains and losses on financial instruments	13.8	24.8
Other operating income and expenses	0.0	0.0
Operating income	**71.9**	**79.7**
Operating expenses	**(19.0)**	**(21.6)**
Total risk costs	0.0	0.0
Profit before tax	**52.9**	**58.1**
Income taxes	–	–
Profit after tax	**52.9**	**58.1**
Non-controlling interests	–	–
Net profit	**52.9**	**58.1**

Source: BAWAG Group's Financial Statements.

10.6.3.6.1 Net Interest Income for the Treasury Services & Markets Segment

Net interest income increased to € 58.1 million in the financial year 2015, an increase of € 3.3 million, or 6.0%, compared to € 54.8 million in the financial year 2014. Although interest income was negatively affected by the low interest rate environment, an uptick in average loan volumes caused an increase in net interest income in the financial year 2015.

10.6.3.6.2 Net Fee and Commission Income for the Treasury Services & Markets Segment

Net fee and commission income remained stable at € 0.0 million in the financial years 2015 and 2014.

10.6.3.6.3 Core Revenues for the Treasury Services & Markets Segment

Core revenues increased to € 58.1 million in the financial year 2015, an increase of € 3.3 million, or 6.0%, compared to € 54.8 million in the financial year 2014, due to an increase in net interest income.

10.6.3.6.4 Gains and Losses on Financial Instruments for the Treasury Services & Markets Segment

Gains and losses on financial instruments decreased to € 13.8 million in the financial year 2015, a decrease of € 11.0 million, or 44.4%, from € 24.8 million in the financial year 2014, due to fewer sales and decreased realization of hidden reserves.

10.6.3.6.5 Other Operating Income and Expenses for the Treasury Services & Markets Segment

Other operating income and expenses remained stable at € 0.0 million in the financial years 2015 and 2014.

10.6.3.6.6 Operating Income for the Treasury Services & Markets Segment

Operating income decreased to € 71.9 million in the financial year 2015, a decrease of € 7.8 million, or 9.8%, compared to € 79.7 million in the financial year 2014, primarily driven by the decrease of € 11.0 million in gains and losses on financial instruments that was only partially offset by increased core revenues.

10.6.3.6.7 Operating Expenses for the Treasury Services & Markets Segment

Operating expenses decreased to € 19.0 million in the financial year 2015, a decrease of € 2.6 million, or 12.0%, compared to € 21.6 million in the financial year 2014. This was due to the Treasury Services & Markets segment exiting trading as well as reducing the number of FTEs. Thus, divisions were streamlined and certain risk systems, back office features and IT were made redundant.

10.6.3.6.8 Total Risk Costs for the Treasury Services & Markets Segment

Total risk costs remained stable at € 0.0 million in the financial years 2015 and 2014.

10.6.3.6.9 Net Profit for the Treasury Services & Markets Segment

Net profit decreased to € 52.9 million in the financial year 2015, a decrease of € 5.2 million, or 9.0%, from € 58.1 million in the financial year 2014.

10.6.3.7 Comparison of the Financial Years Ended December 31, 2015, and December 31, 2014, for the Corporate Center Segment

	For the financial years ended December 31,	
	2015	**2014**
	(audited) (in € million)	**(unaudited) (in € million)**
Net interest income	34.1	15.5
Net fee and commission income	2.7	(6.1)
Core revenues	**36.8**	**9.4**
Gains and losses on financial instruments	45.4	6.2
Other operating income and expenses	(2.5)[1)]	10.4
Operating income	**79.8**	**26.0**
Operating expenses	**(42.1)**	**(23.5)**
Regulatory charges	(30.5)	(29.2)
Total risk costs	(5.8)	(8.3)
Share of the profit or loss of associates accounted for using the equity method	(0.5)	0.9
Profit before tax	**0.9**	**(34.1)**
Income taxes	(24.1)	(0.5)
Profit after tax	**(23.2)**	**(34.6)**
Non-controlling interests	(0.0)	(0.7)
Net profit	**(23.2)**	**(35.3)**

1) Number differs from the segment reporting in the Audited Consolidated Financial Statements as of and for the financial year 2016 due to rounding differences.

Source: BAWAG Group's Financial Statements.

10.6.3.7.1 Net Interest Income for the Corporate Center Segment

Net interest income increased to € 34.1 million in the financial year 2015, an increase of € 18.6 million, or 120.0%, compared to € 15.5 million in the financial year 2014, as lower interest expense outweighed lower interest income in the financial year 2015. The Corporate Center segment generates interest income by providing asset liability management for BAWAG Group, specifically interest and liquidity funds transfer pricing and by hedging activities in the market.

10.6.3.7.2 Net Fee and Commission Income for the Corporate Center Segment

Net fee and commission income increased to € 2.7 million in the financial year 2015, an increase of € 8.8 million, after recording losses of € 6.1 million in the financial year 2014. This increase was predominantly due to proceeds in an amount of € 8.0 million from the divestiture of the custodian bank business. Following the divestiture of BAWAG P.S.K. INVEST GmbH, BAWAG Group's captive asset manager, to Amundi S.A. in February 2015, BAWAG P.S.K. initially continued to serve as custodian bank for the divested business, but the function as custodian bank was transferred to State Street later in the financial year 2015.

10.6.3.7.3 Core Revenues for the Corporate Center Segment

Core revenues increased to € 36.8 million in the financial year 2015, an increase of € 27.4 million, or 291.4%, compared to € 9.4 million in the financial year 2014, due to increases in net interest income of € 18.6 million and net fee and commission income of € 8.8 million.

10.6.3.7.4 Gains and Losses on Financial Instruments for the Corporate Center Segment

Gains and losses on financial instruments increased to € 45.4 million in the financial year 2015, an increase of € 39.2 million, or 632.3%, compared to € 6.2 million in the financial year 2014. Increased gains were predominantly generated by the sale of participations in subsidiaries: BAWAG P.S.K. INVEST GmbH for € 37.5 million, BAWAG Allianz Vorsorgekasse AG for € 17.6 million and Österreichische Lotterien GmbH for € 7.7 million. This was a significant increase compared to the sales of MKB Bank Zrt. for € 2.8 million and Generali Leasing GmbH for € 0.7 million in the financial year 2014.

10.6.3.7.5 Other Operating Income and Expenses for the Corporate Center Segment

Other operating income and expenses decreased to € (2.5) million, a decrease of € 12.9 million after recording income of € 10.4 million in the financial year 2014. Income in the financial year 2014 was largely due to a one-time, earn-out payment in the amount of € 6.4 million made by paysafecard.com Wertkarten AG following the sale of the participation in paysafecard.com Wertkarten AG in the financial year 2013, whereas the financial year 2015 saw no comparable one-off payments but rather a provision was recognized in the financial year 2015 (that was released in the financial year 2016).

10.6.3.7.6 Operating Income for the Corporate Center Segment

Operating income increased to € 79.8 million in the financial year 2015, an increase of € 53.8 million, or 206.9%, compared to € 26.0 million in the financial year 2014, mainly due to a € 39.2 million increase in gains and losses on financial instruments and a € 27.4 million increase in core revenues.

10.6.3.7.7 Operating Expenses for the Corporate Center Segment

Operating expenses increased to € 42.1 million in the financial year 2015, an increase of € 18.6 million, or 79.1%, compared to € 23.5 million in the financial year 2014 due to increased restructuring costs for streamlining risk management (e.g., automated score card decisions and centralization), branch network optimization and rightsizing of origination capacities in the DACH Corporates & Public Sector segment. All restructuring costs are, however, allocated to the Corporate Center segment regardless of the segment which actually triggered such restructuring costs.

10.6.3.7.8 Regulatory Charges for the Corporate Center Segment

Regulatory charges increased to € 30.5 million in the financial year 2015, an increase of € 1.3 million, or 4.5%, compared to € 29.2 million in the financial year 2014. This was driven by the introduction of the SRF that required contributions of € 5.7 million in the financial year 2015. On the other hand, bank levy decreased by € 1.5 million and supervisory charges decreased by € 3.0 million.

10.6.3.7.9 Total Risk Costs for the Corporate Center Segment

Total risk costs decreased to € 5.8 million in the financial year 2015, a decrease of € 2.5 million, or 30.1%, compared to € 8.3 million in the financial year 2014, primarily driven by a decrease of € 1.1 million in costs for operational risk and lower legal costs.

10.6.3.7.10 Share of the Profit or Loss of Associates Accounted for Using the Equity Method for the Corporate Center Segment

The share of the profit or loss of associates accounted for using the equity method decreased to € (0.5) million in the financial year 2015, a decrease of € 1.4 million, or 155.6%, compared to € 0.9 million in the financial year 2014. The associates accounted for using the equity method were BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH. The loss was mainly caused by an impairment of the goodwill in BAWAG P.S.K. Versicherung AG in the amount of € 5.1 million.

10.6.3.7.11 Profit before tax for the Corporate Center Segment

Profit before tax increased to € 0.9 million in the financial year 2015, an increase of € 35.0 million, after recording losses of € 34.1 million in the financial year 2014, driven by an increase in operating income of € 53.8 million that outweighed increased operating expenses (up by € 18.6 million).

10.6.3.7.12 Income Taxes for the Corporate Center Segment

Income taxes increased to € 24.1 million in the financial year 2015, an increase of € 23.6 million, or 4720.0%, compared to € 0.5 million in the financial year 2014, mainly due to deferred tax expenses from the sale of equity investments.

10.6.3.7.13 Profit after Tax for the Corporate Center Segment

Profit after tax remained negative but increased to € (23.2) million in the financial year 2015, a reduction in losses of € 11.4 million, or 32.9%, compared to € (34.6) million in the financial year 2014.

10.6.3.7.14 Non-controlling Interests for the Corporate Center Segment

The profit after tax attributable to non-controlling interests decreased to € 0.0 million in the financial year 2015, a decrease of € 0.7 million, or 100.0%, compared to € 0.7 million in the financial year 2014.

10.6.3.7.15 Net Profit for the Corporate Center Segment

Net profit remained negative at € (23.2) million in the financial year 2015, a reduction in losses of € 12.1 million, or 34.3%, compared to losses of € 35.3 million in the financial year 2014.

10.7 Financial Position

In the following section, BAWAG Group describes its financial position and the changes in its financial position. The table below presents assets, equity and liabilities as of June 30, 2017, and as of December 31, 2016, 2015, and 2014:

Total assets

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)	(audited, unless otherwise indicated) (in € million)		
Cash reserves	887	1,020	809	684
Financial assets designated at fair value through profit or loss	191	202	303	450
Available-for-sale financial assets	3,043	3,209	2,745	3,859
Held-to-maturity investments	2,319	2,353	2,290	2,042
Financial assets held for trading	510	652	950	1,163
Loans and receivables	31,445	30,821	27,396	25,280
Customers	28,003	28,494	24,713	21,779
Securities	1,325	692	973	1,983
Credit institutions	2,117	1,635	1,710	1,518
Hedging derivatives	590	677	469	546
Property, plant and equipment	49	53	59	81[1)]
Investment properties	4	3	4	3[1)]
Goodwill	58	58	58	58
Brand name and customer relationships	171	174	168	174
Software and other intangible assets	141	128	103	102
Tax assets for current taxes	6	10	20	7
Tax assets for deferred taxes	163	203	190	193
Associates recognized at equity	42	45	43	44
Other assets	97	135	92	100
Assets in disposal groups	–	–	9	68
Total assets	**39,716**	**39,743**	**35,708**	**34,854**

1) Numbers are taken from the statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2015. Because investment properties are listed as a separate line item therein, the number for property, plant and equipment deviates from the number published in the Audited Consolidated Financial Statements as of and for the financial year 2014.

Source: BAWAG Group's Financial Statements.

Total liabilities and equity

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)	(audited, unless otherwise indicated) (in € million)		
Total liabilities				
Financial liabilities designated at fair value through profit or loss	847	1,115	1,269	1,675
Financial liabilities held for trading	405	617	1,071	1,174
Financial liabilities at amortized cost	33,816	32,962	28,514	27,985
Customers	25,359	25,998	21,692	21,127
Issued bonds, subordinated and supplementary capital	5,120	4,900	3,236	4,438
Credit institutions	3,337	2,064	3,586	2,420
Financial liabilities associated with transferred assets	–	300	621	–
Valuation adjustment on interest rate risk hedged portfolios	135	223	169	196
Hedging derivatives	140	260	106	160
Provisions	366	404	419	522
Tax liabilities for current taxes	21	19	6	1
Tax liabilities for deferred taxes	33	27	–	4
Other obligations	604	680	576	512
Obligations in disposal groups	–	–	0	6
Total equity	**3,349**	**3,136**	**2,957**	**2,619**
Equity attributable to the owners of the parent	3,348	3,134	2,956	2,619
Non-controlling interests	1	2	1	–
Total liabilities and equity	**39,716**	**39,743**	**35,708**	**34,854**

Source: BAWAG Group's Financial Statements.

10.7.1 Total Assets

10.7.1.1 Comparison as of June 30, 2017, to December 31, 2016

Total assets remained fairly stable at € 39,716 million as of June 30, 2017, a slight decrease of € 27 million, or 0.1%, from € 39,743 million as of December 31, 2016.

Cash reserves decreased to € 887 million as of June 30, 2017, a decrease of € 133 million, or 13.0%, from € 1,020 million as of December 31, 2016.

Financial assets designated at fair value through profit or loss amounted to € 191 million as of June 30, 2017, a decrease of € 11 million, or 5.5%, from € 202 million as of December 31, 2016. This decrease was due to the redemption of loans accounted for at fair value.

Available-for-sale financial assets decreased to € 3,043 million as of June 30, 2017, a decrease of € 166 million, or 5.2%, from € 3,209 million as of December 31, 2016. This decrease was mainly a result of sales and redemption that were only partly offset by purchases of securities.

Held to maturity investments remained largely stable at € 2,319 million as of June 30, 2017, a slight decrease of € 34 million, or 1.4%, from € 2,353 million as of December 31, 2016.

Financial assets held for trading decreased to € 510 million as of June 30, 2017, a decrease of € 142 million, or 21.8%, from € 652 million as of December 31, 2016. This decrease was predominantly due to matured or terminated derivatives and negative fair value changes in line with BAWAG Group's strategy to minimize derivative volume. The reduction in open derivatives transactions resulted in a similar decrease in recorded liabilities for derivatives as of June 30, 2017.

Loans and receivables slightly increased to € 31,445 million as of June 30, 2017, an increase of € 624 million, or 2.0%, compared to € 30,821 million as of December 31, 2016. Of this amount, loans and receivables to customers remained largely stable at € 28,003 million as of June 30, 2017, a slight decrease of € 491 million, or 1.7%, from € 28,494 million as of December 31, 2016. The slight decrease in loans and receivables was mainly driven by the International Business segment. Securities increased to € 1,325 million as of June 30, 2017, an increase of € 633 million, or 91.5%, from € 692 million as of December 31, 2016, mainly due to the purchase of new securities. Loans and receivables to credit institutions increased to € 2,117 million as of June 30, 2017, an increase of € 482 million, or 29.5%, from

€ 1635 million as of December 31, 2016, which was primarily driven by BAWAG Group's participation in the second series of targeted longer-term refinancing operations (TLTRO II) of the ECB with a volume of € 2.0 billion since the excess funding from the TLTRO II is temporarily invested at the Austrian National Bank.

Hedging derivatives decreased to € 590 million as of June 30, 2017, a decrease of € 87 million, or 12.9%, from € 677 million as of December 31, 2016, mainly due to fair value changes.

The value of property, plant and equipment amounted to € 49 million as of June 30, 2017, a decrease of € 4 million, or 7.6%, from € 53 million as of December 31, 2016, mainly due to depreciation, which was only partly offset by purchases.

The value of investment properties amounted to € 4 million as of June 30, 2017, an increase of € 1 million, or 33.3%, from € 3 million as of December 31, 2016.

Goodwill remained stable at € 58 million as of June 30, 2017, and as of December 31, 2016.

The value of the brand name and customer relationships remained fairly stable at € 171 million as of June 30, 2017, a slight decrease of € 3 million, or 1.7%, from € 174 million as of December 31, 2016.

Software and intangible assets increased to € 141 million as of June 30, 2017, an increase of € 13 million, or 10.2%, from € 128 million as of December 31, 2016, mainly due to internally developed software and the purchase of software that outweighed amortization.

Tax assets for current taxes amounted to € 6 million as of June 30, 2017, a decrease of € 4 million, or 40.0%, from € 10 million as of December 31, 2016, mainly due to withholding taxes.

Tax assets for deferred taxes decreased to € 163 million as of June 30, 2017, a decrease of € 40 million, or 19.7%, from € 203 million as of December 31, 2016, mainly due to the recognition of deferred tax assets on tax loss carryforwards.

The value of associates recognized at equity decreased to € 42 million as of June 30, 2017, a slight decrease of € 3 million, or 6.7%, from € 45 million as of December 31, 2016, mainly due to dividend payments that resulted in a book value reduction.

Other assets decreased to € 97 million as of June 30, 2017, a decrease of € 38 million, or 28.2%, from € 135 million as of December 31, 2016, mainly due to the fluctuation of suspense accounts.

No assets in disposal groups were recorded in the accounts as of June 30, 2017, and as of December 31, 2016.

10.7.1.2 Comparison as of December 31, 2016, to December 31, 2015

Total assets increased to € 39,743 million as of December 31, 2016, an increase of € 4,035 million, or 11.3%, from € 35,708 million as of December 31, 2015. This increase was mainly driven by the acquisition of start:bausparkasse and IMMO-BANK.

Cash reserves increased to € 1,020 million as of December 31, 2016, an increase of € 211 million, or 26.1%, from € 809 million as of December 31, 2015. This increase is partly due to month-end effects, with customers accumulating cash reserves on their bank accounts following salary payment, neither timely withdrawn nor reinvested as at December 31, 2016. The amount of payroll related cash reserves varies from year to year but customers also tend to keep more cash in their current account in light of the current low interest rate market environment.

Financial assets designated at fair value through profit or loss amounted to € 202 million as of December 31, 2016, a decrease of € 101 million, or 33.3%, from € 303 million as of December 31, 2015. This decrease was predominantly due to the sale and redemption of securities.

Available-for-sale financial assets increased to € 3,209 million as of December 31, 2016, an increase of € 464 million, or 16.9%, from € 2,745 million as of December 31, 2015. This increase was mainly a result of purchases that were only partly offset by sales and redemption of securities.

Held to maturity investments remained largely stable at € 2,353 million as of December 31, 2016, a slight increase of € 63 million, or 2.8%, from € 2,290 million as of December 31, 2015.

Financial assets held for trading decreased to € 652 million as of December 31, 2016, a decrease of € 298 million, or 31.4%, from € 950 million as of December 31, 2015. This decrease was predominantly due to matured or terminated derivatives and negative fair value changes in line with BAWAG Group's strategy to minimize derivative volume. The reduction in open derivatives transactions resulted in a similar decrease in recorded liabilities for derivatives as of December 31, 2016.

Loans and receivables increased to € 30,821 million as of December 31, 2016, an increase of € 3,425 million, or 12.5%, compared to € 27,396 million as of December 31, 2015. Of this amount, loans and receivables to customers increased to € 28,494 million as of December 31, 2016, an increase of € 3,781 million, or 15.3%, from € 24,713 million as of December 31, 2015. In line with BAWAG Group's strategy to focus on customer loans while maintaining an investment book to keep necessary liquidity reserves and to park excess liquidity that can easily be made available when opportunities for organic growth or acquisitions arise, the increase in loans and receivables was mainly driven by growth in consumer loans and the international business as well as the acquisition of start:bausparkasse (€ 1.6 billion), IMMO-BANK (€ 1.3 billion) and the French Mortgage Loan Portfolio (€ 1.4 billion). Securities decreased to € 692 million as of December 31, 2016, a decrease of € 281 million, or 28.9%, from € 973 million as of December 31, 2015, mainly due to sales and redemption that were only partly offset by the purchase of new securities. Loans and receivables to credit institutions remained largely stable at € 1,635 million as of December 31, 2016, a slight decrease of € 75 million, or 4.4%, from € 1,710 million as of December 31, 2015.

Hedging derivatives increased to € 677 million as of December 31, 2016, an increase of € 208 million, or 44.3%, from € 469 million as of December 31, 2015, mainly due to positive fair value changes. The reduction in open derivatives transactions resulted in a similar decrease in recorded liabilities for hedging derivatives.

The value of property, plant and equipment amounted to € 53 million as of December 31, 2016, a decrease of € 6 million, or 10.2%, from € 59 million as of December 31, 2015, mainly due to depreciation, which was only partly offset by purchases.

The value of investment properties amounted to € 3 million as of December 31, 2016, a decrease of € 1 million, or 25.0%, from € 4 million as of December 31, 2015, mainly due to depreciation.

Goodwill remained stable at € 58 million as of December 31, 2016, and as of December 31, 2015.

The value of the brand name and customer relationships increased to € 174 million as of December 31, 2016, an increase of € 6 million, or 3.6%, from € 168 million as of December 31, 2015, mainly due to the acquisition of start:bausparkasse and IMMO-BANK, which outweighed amortization.

Software and intangible assets increased to € 128 million as of December 31, 2016, an increase of € 25 million, or 24.3%, from € 103 million as of December 31, 2015, mainly due to the purchase of software that outweighed amortization.

Tax assets for current taxes amounted to € 10 million as of December 31, 2016, a decrease of € 10 million, or 50.0%, from € 20 million as of December 31, 2015, mainly due to a decrease in value-added-tax (VAT) receivables.

Tax assets for deferred taxes increased to € 203 million as of December 31, 2016, an increase of € 13 million, or 6.8%, from € 190 million as of December 31, 2015, mainly due to the recognition of deferred tax assets on tax loss carryforwards.

The value of associates recognized at equity remained largely stable at € 45 million as of December 31, 2016, a slight increase of € 2 million, or 4.7%, from € 43 million as of December 31, 2015.

Other assets increased to € 135 million as of December 31, 2016, an increase of € 43 million, or 46.7%, from € 92 million as of December 31, 2015, mainly due to receivables from PSH for services rendered by BAWAG Group and the acquisition of start:bausparkasse.

No assets in disposal groups were recorded in the accounts as of December 31, 2016, as compared to € 9 million as of December 31, 2015, that related to BAWAG Malta Bank Limited. With no further subsidiaries intended to be sold, no assets or liabilities of such subsidiaries needed to be shown in the financial year 2016.

10.7.1.3 Comparison as of December 31, 2015, to December 31, 2014

Total assets increased to € 35,708 million as of December 31, 2015, an increase of € 854 million, or 2.5%, from € 34,854 million as of December 31, 2014. This increase was mainly driven by increases in loans and receivables from customers, which were only partly offset by decreases in available-for-sale and loans-and-receivables securities.

Cash reserves increased to € 809 million as of December 31, 2015, an increase of € 125 million, or 18.3%, from € 684 million as of December 31, 2014. This increase is partly due to month-end effects, with customers accumulating cash reserves on their bank accounts following salary payment, neither timely withdrawn nor reinvested as at December 31, 2015. The amount of payroll related cash reserves varies from year to year but customers also tend to keep more cash in their current account in light of the current low interest rate market environment.

Financial assets designated at fair value through profit or loss amounted to € 303 million as of December 31, 2015, a decrease of € 147 million, or 32.7%, from € 450 million as of December 31, 2014. This decrease was predominantly due to sales, which were only partly offset by the purchase of new securities.

Available-for-sale financial assets amounted to € 2,745 million as of December 31, 2015, a decrease of € 1,114 million, or 28.9%, from € 3,859 million as of December 31, 2014, mainly due to the sale of bonds and redemptions, partly offset by the purchase of new securities. This development reflects the strategy of BAWAG Group to park excess liquidity in available-for-sale financial assets and sell such available-for-sale financial assets to provide liquidity for originations or acquisitions.

Held to maturity investments increased to € 2,290 million as of December 31, 2015, an increase of € 248 million, or 12.1%, from € 2,042 million as of December 31, 2014. This increase was mainly driven by purchases, partly offset by sales and redemptions of securities.

Financial assets held for trading decreased to € 950 million as of December 31, 2015, a decrease of € 213 million, or 18.3%, from € 1,163 million as of December 31, 2014. This decrease was predominantly due to matured or terminated derivatives and negative fair value changes. The reduction in open derivatives transactions resulted in a similar decrease in recorded liabilities for derivatives as of December 31, 2015.

Loans and receivables increased to € 27,396 million as of December 31, 2015, an increase of € 2,116 million, or 8.4%, from € 25,280 million as of December 31, 2014. Of this amount, loans and receivables vis-à-vis customers increased to € 24,713 million as of December 31, 2015, an increase of € 2,934 million, or 13.5%, from € 21,779 million as of December 31, 2014, mainly driven by growth in consumer loans and international business as well as the acquisition of the U.K. Mortgage Loan Portfolio and the Volksbanken leasing portfolio. Securities amounted to € 973 million as of December 31, 2015, a decrease of € 1,010 million, or 50.9%, from € 1,983 million as of December 31, 2014, mainly due the sale of BAWAG Group's collateralized loan obligations (CLO) portfolio. Loans and receivables vis-à-vis credit institutions increased to € 1,710 million as of December 31, 2015, an increase of € 192 million, or 12.6%, from € 1,518 million as of December 31, 2014, mainly due to free liquidity invested in short term deposits.

Hedging derivatives decreased to € 469 million as of December 31, 2015, a decrease of € 77 million, or 14.1%, from € 546 million as of December 31, 2014, mainly due to matured or terminated derivatives and negative fair value changes. The reduction in open derivatives transactions resulted in a similar decrease in recorded liabilities for hedging derivatives.

The value of property, plant and equipment amounted to € 59 million as of December 31, 2015, a decrease of € 22 million, or 27.2%, from € 81 million as of December 31, 2014, mainly due to disposals and depreciation, partly offset by purchases.

Investment properties increased to € 4 million as of December 31, 2015, an increase of € 1 million, or 33.3%, from € 3 million as of December 31, 2014, mainly due to the re-allocation of plants under construction.

Goodwill remained stable at € 58 million as of December 31, 2015, and as of December 31, 2014.

Brand name and customer relationships amounted to € 168 million as of December 31, 2015, a decrease of € 6 million, or 3.4%, from € 174 million as of December 31, 2014, mainly due to amortization.

Software and other intangible assets remained fairly stable at € 103 million as of December 31, 2015, and € 102 million as of December 31, 2014.

Tax assets for current taxes increased to € 20 million as of December 31, 2015, an increase of € 13 million, or 185.7%, from € 7 million as of December 31, 2014, mainly due to an increase in value-added-tax (VAT) receivables.

Tax assets for deferred taxes remained fairly stable at € 190 million as of December 31, 2015, and € 193 million as of December 31, 2014.

The value of associates recognized at equity remained fairly stable at € 43 million as of December 31, 2015, and € 44 million as of December 31, 2014.

Other assets amounted to € 92 million as of December 31, 2015, a decrease of € 8 million, or 8.0%, from € 100 million as of December 31, 2014, mainly due to a decrease in accruals.

Assets in disposal groups decreased to € 9 million as of December 31, 2015, a decrease of € 59 million, or 86.8%, from € 68 million as of December 31, 2014, due to the sale of BAWAG P.S.K. INVEST GmbH in February 2015.

10.7.2 Total Liabilities and Equity

10.7.2.1 Comparison as of June 30, 2017, to December 31, 2016

Total liabilities and equity remained fairly stable at € 39,716 million as of June 30, 2017, a slight decrease of € 27 million, or 0.1%, from € 39,743 million as of December 31, 2016.

Financial liabilities designated at fair value through profit or loss decreased to € 847 million as of June 30, 2017, a decrease of € 268 million, or 24.0%, from € 1,115 million as of December 31, 2016. This decrease was predominantly due to repurchases and redemptions of securities, only partly compensated for by the issue of new securities.

Financial liabilities held for trading decreased to € 405 million as of June 30, 2017, a decrease of € 212 million, or 34.4%, from € 617 million as of December 31, 2016. This decrease was predominantly due to matured or terminated derivatives in line with BAWAG Group's strategy to minimize derivative volume. The reduction in open derivatives transactions resulted in a similar decrease in recorded assets for derivatives.

Financial liabilities at amortized cost amounted to € 33,816 million as of June 30, 2017, an increase of € 854 million, or 2.6%, compared to € 32,962 million as of December 31, 2016. Of this amount, financial liabilities to customers amounted to € 25,359 million as of June 30, 2017, a decrease of € 639 million, or 2.5%, from € 25,998 million as of December 31, 2016. The decrease mainly results from the reduction of short-term corporate deposits. Issued bonds and subordinated and supplemental capital increased to € 5,120 million as of June 30, 2017, an increase of € 220 million, or 4.5%, from € 4,900 million as of December 31, 2016, mainly due to the issue of an Austrian public sector covered bond in the notional amount of € 500 million in January 2017. Financial liabilities to credit institutions increased to € 3,337 million as of June 30, 2017, an increase of € 1,273 million, or 61.7%, from € 2,064 million as of December 31, 2016, mainly resulting from a tranche in the second series of targeted longer-term refinancing operations (TLTRO II) of the ECB with a volume of € 2.0 billion.

Financial liabilities associated with transferred assets decreased to € 0 million as of June 30, 2017, a decrease of € 300 million, or 100%, from € 300 million as of December 31, 2016, mainly due to the lack of repo transaction volumes.

Valuation adjustment on interest rate risk hedged portfolios amounted to € 135 million as of June 30, 2017, a decrease of € 88 million, or 39.5%, from € 223 million as of December 31, 2016, mainly due to changes in the value of the underlying transactions that can be attributed to the hedged interest rate risk.

Hedging derivatives increased to € 140 million as of June 30, 2017, a decrease of € 120 million, or 46.2%, from € 260 million as of December 31, 2016, mainly due to fair value changes of the hedging instruments.

Provisions decreased to € 366 million as of June 30, 2017, a decrease of € 38 million, or 9.4%, from € 404 million as of December 31, 2016, mainly due to lower provisions for social capital.

Tax liabilities for current taxes amounted to € 21 million as of June 30, 2017, an increase of € 2 million, or 10.5%, compared to € 19 million as of December 31, 2016.

Tax liabilities for deferred taxes increased to € 33 million as of June 30, 2017, an increase of € 6 million, or 22.2%, compared to € 27 million as of December 31, 2016, mainly due to an increase in deferred tax liabilities in the French Mortgage Loan Portfolio, which is not included in the tax group.

Other obligations amounted to € 604 million as of June 30, 2017, a decrease of € 76 million, or 11.2%, from € 680 million as of December 31, 2016, mainly due to suspense accounts from payment services.

Total equity increased to € 3,349 million as of June 30, 2017, an increase of € 213 million, or 6.8%, from € 3,136 million as of December 31, 2016. The change was mainly driven by the net profit for the six-month period ended June 30, 2017. Equity attributable to the owners of the parent increased to € 3,348 million as of June 30, 2017, an increase of € 214 million, or 6.8%, from € 3,134 million as of December 31, 2016. Non-controlling interests remained fairly low at € 1 million as of June 30, 2017, and € 2 million as of December 31, 2016.

10.7.2.2 Comparison as of December 31, 2016, to December 31, 2015

Total liabilities and equity amounted to € 39,743 million as of December 31, 2016, an increase of € 4,035 million, or 11.3%, from € 35,708 million as of December 31, 2015. This increase was mainly driven by the acquisition of start:bausparkasse (€ 1.8 billion) and IMMO-BANK (€ 0.3 billion).

Financial liabilities designated at fair value through profit or loss decreased to € 1,115 million as of December 31, 2016, a decrease of € 154 million, or 12.1%, from € 1,269 million as of December 31, 2015. This decrease was predominantly due to repurchases and redemption of securities, only partly compensated for by the issue of new securities.

Financial liabilities held for trading decreased to € 617 million as of December 31, 2016, a decrease of € 454 million, or 42.4%, from € 1,071 million as of December 31, 2015. This decrease was predominantly due to matured or terminated derivatives in line with BAWAG Group's strategy to minimize derivative volume. The reduction in open derivatives transactions resulted in a similar decrease in recorded assets for derivatives.

Financial liabilities at amortized cost amounted to € 32,962 million as of December 31, 2016, an increase of € 4,448 million, or 15.6%, compared to € 28,514 million as of December 31, 2015. Of this amount, financial liabilities to customers amounted to € 25,998 million as of December 31, 2016, an increase of € 4,306 million, or 19.9%, from € 21,692 million as of December 31, 2015. The increase mainly results from the acquisition of start:bausparkasse and IMMO-BANK as well as higher deposit account balances. Issued bonds, subordinated and supplemental capital increased to € 4,900 million as of December 31, 2016, an increase of € 1,664 million, or 51.4%, from € 3,236 million as of December 31, 2015, due to the issue of a € 500 million mortgage covered bond in the first quarter 2016 as well as the successful placement of two senior unsecured bonds in the Swiss market for a total of CHF 275 million, BAWAG P.S.K.'s inaugural U.K. RMBS placement of GBP 500 million and the acquisition of start:bausparkasse and IMMO-BANK in the fourth quarter 2016. Financial liabilities to credit institutions decreased to € 2,064 million as of December 31, 2016, a decrease of € 1,522 million, or 42.4%, from € 3,586 million as of December 31, 2015, mainly due to the repayment of a ECB tender under the first series of targeted longer-term refinancing operations (TLTRO I).

Financial liabilities associated with transferred assets decreased to € 300 million as of December 31, 2016, a decrease of € 321 million, or 51.7%, from € 621 million as of December 31, 2015, mainly due to lower repo transaction volumes.

Valuation adjustment on interest rate risk hedged portfolios amounted to € 223 million as of December 31, 2016, an increase of € 54 million, or 32.0%, from € 169 million as of December 31, 2015, mainly due to changes in the value of the underlying transactions that can be attributed to the hedged interest rate risk.

Hedging derivatives increased to € 260 million as of December 31, 2016, an increase of € 154 million, or 145.3%, from € 106 million as of December 31, 2015, mainly due to negative fair value changes. The reduction in open derivatives transactions resulted in a similar decrease in recorded assets for derivatives.

Provisions decreased to € 404 million as of December 31, 2016, a decrease of € 15 million, or 3.6%, from € 419 million as of December 31, 2015, mainly due to lower provisions for credit commitment and guarantees.

Tax liabilities for current taxes amounted to € 19 million as of December 31, 2016, an increase of € 13 million, or 216.7%, compared to € 6 million as of December 31, 2015, mainly due to current tax liabilities in IMMO-BANK, which were not netted with current tax assets as IMMO-BANK was not part of the tax group as of December 31, 2016.

Tax liabilities for deferred taxes increased to € 27 million as of December 31, 2016, an increase of € 27 million as no tax liabilities for deferred taxes were recorded in the accounts as of December 31, 2015, mainly due to deferred tax liabilities in start:bausparkasse, which were not netted with deferred tax assets as start:bausparkasse was not part of the tax group as of December 31, 2016.

Other obligations amounted to € 680 million as of December 31, 2016, an increase of € 104 million, or 18.1%, from € 576 million as of December 31, 2015, mainly due to the acquisition of start:bausparkasse and IMMO-BANK.

No obligations in disposal groups were recorded in the accounts as of December 31, 2016, compared to minimal obligations related to BAWAG Malta Bank Limited as of December 31, 2015.

Total equity increased to € 3,136 million as of December 31, 2016, an increase of € 179 million, or 6.1%, from € 2,957 million as of December 31, 2015. The change was driven by the net profit for the financial year 2016, partially offset by a dividend payment in the amount of € 309 million made to PSH, the sole shareholder of the Company earlier in 2016. Equity attributable to the owners of the parent increased to € 3,134 million as of December 31, 2016, an increase of € 178 million, or 6.0%, from € 2,956 million as of December 31, 2015. Non-controlling interests remained fairly low at € 2 million as of December 31, 2016, and € 1 million as of December 31, 2015.

10.7.2.3 Comparison as of December 31, 2015, to December 31, 2014

Total liabilities and equity increased to € 35,708 million as of December 31, 2015, an increase of € 854 million, or 2.5%, from € 34,854 million as of December 31, 2014. This increase was mainly driven by increases in financial liabilities to credit institutions and financial liabilities associated with transferred assets that were only partly offset by decreases in financial liabilities designated at fair value through profit or loss, issued bonds as well as subordinated and supplemental capital.

Financial liabilities designated at fair value through profit or loss decreased to € 1,269 million as of December 31, 2015, a decrease of € 406 million, or 24.2%, from € 1,675 million as of December 31, 2014, driven by the repurchase and redemption of own issues, partly offset by the issue of new securities.

Financial liabilities held for trading decreased to € 1,071 million as of December 31, 2015, a decrease of € 103 million, or 8.8%, from € 1,174 million as of December 31, 2014. This decrease was predominantly due to matured or terminated derivatives, the effects of which were only partly offset by negative fair value changes. The reduction in open derivatives transactions resulted in a similar decrease in recorded assets for derivatives.

Financial liabilities at amortized cost amounted to € 28,514 million as of December 31, 2015, an increase of € 529 million, or 1.9%, from € 27,985 million as of December 31, 2014. Of this amount, financial liabilities to customers amounted to € 21,692 million, an increase of € 565 million, or 2.7%, from € 21,127 million as of December 31, 2014. Financial liabilities to credit institutions amounted to € 3,586 million as of December 31, 2015, an increase of € 1,166 million, or 48.2%, from € 2,420 million as of December 31, 2014, mainly due to the participation in a ECB tender under the first series of targeted longer-term refinancing operations (TLTRO I). Issued bonds, subordinated and supplemental capital amounted to € 3,236 million as of December 31, 2015, a decrease of € 1,202 million, or 27.1%, from € 4,438 million as of December 31, 2014, primarily due to the redemption of own issues, partly compensated for by a newly issued mortgage covered bond with a notional value of € 500 million in October 2015.

Financial liabilities associated with transferred assets increased to € 621 million as of December 31, 2015, compared to no financial liabilities associated with transferred assets that were recorded in the accounts as of December 31, 2014, mainly due to repo transactions.

Valuation adjustment on interest rate risk hedged portfolios amounted to € 169 million as of December 31, 2015, a decrease of € 27 million, or 13.8%, from € 196 million as of December 31, 2014, mainly due to changes in the value of the underlying transactions that can be attributed to the hedged interest rate risk.

Hedging derivatives decreased to € 106 million as of December 31, 2015, a decrease of € 54 million, or 33.8%, from € 160 million as of December 31, 2014, mainly due to matured or terminated derivatives and positive fair value changes. The reduction in open derivatives transactions resulted in a similar decrease in recorded assets for derivatives.

Provisions decreased to € 419 million as of December 31, 2015, a decrease of € 103 million, or 19.7%, from € 522 million as of December 31, 2014. This was mainly driven by the positive effect of de-risking actions taken in prior years.

Tax liabilities for current taxes amounted to € 6 million as of December 31, 2015, an increase of € 5 million, or 500.0%, compared to € 1 million as of December 31, 2014, due to higher tax obligations in Austria and in the U.K. that were only partly offset by tax loss carryforwards.

No tax liabilities for deferred taxes were recorded in the accounts as of December 31, 2015, after € 4 million being recorded as of December 31, 2014.

Other obligations amounted to € 576 million as of December 31, 2015, an increase of € 64 million, or 12.5%, from € 512 million as of December 31, 2014, mainly due to suspense accounts from payment services and restructuring reserves.

Obligations in disposal groups decreased to an immaterial amount, rounded to € 0 million, as of December 31, 2015, a decrease of € 6 million, or 100.0%, from € 6 million as of December 31, 2014, due to the sale of BAWAG P.S.K. INVEST GmbH in February 2015. The minimal obligations related to BAWAG Malta Bank Limited.

Total equity amounted to € 2,957 million as of December 31, 2015, an increase of € 338 million, or 12.9%, from € 2,619 million as of December 31, 2014. Equity attributable to the owners of the parent increased to € 2,956 million, an increase of € 337 million, or 12.9%, from € 2,619 million as of December 31, 2014. The change was driven by the net profit as of December 31, 2015, partially offset by developments in other comprehensive income, which experienced a decrease in the available-for-sale reserve. Non-controlling interests remained low at € 1 million as of December 31, 2015. No non-controlling interests were recorded in the accounts as of December 31, 2014.

10.8 Liquidity and Capitalization

10.8.1 Overview

The primary objective of BAWAG Group's financial management is to secure and manage its liquidity in such a way that its financing and funding capabilities are assured at all times.

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 BAWAG Group's earnings capacity (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 funding or due to market interruptions (market liquidity risk). BAWAG Group's Risk Manual for Liquidity Risks specifies how liquidity risks are to be controlled and includes a contingency liquidity plan. The risk measurement is performed by the market risk department, which is part of the Strategic Risk division.

Short-term operational liquidity management is performed by the liquidity & funding department, which is part of the treasury & markets division, based on a 30-day rolling forecast that is updated daily, allowing for the close tracking and management of the short-term liquidity position. The liquidity & funding department is also responsible for planning and managing the mid- and long-term funding position as well as for the execution of capital markets funding. All measures are closely aligned with the market risk department. Any important decision on liquidity risk is made within the Strategic Asset Liability Committee (the "**SALCO**"), in which all Management Board members are represented. The liquidity & funding department also ensures that BAWAG Group holds a sufficiently diversified portfolio of liquid assets and that the liquidity buffer, which is derived from stress test results, is adequate for BAWAG Group'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. It is the sum of central bank deposits and unencumbered ECB eligible assets minus any LCR net outflows, short term deposit effects and an internal reserve for payment services and credit line drawdowns.

Liquidity is managed for BAWAG Group as a consolidated whole. The FACE ratio, a benchmark for the short-term liquidity potential, represents the most important ratio for liquidity purposes. Liquidity stress tests are used to determine the outflow of liquidity that may be incurred under different stress scenarios (systemic stress, idiosyncratic stress, combined stress) in order to calibrate the liquidity buffer. Long-term liquidity management is conducted for the coming three years as part of the annual planning process. Strategic measures are also analyzed during the course of the year.

See "*17 Regulation and Supervision*" for a detailed description of the financial and risk management policies of BAWAG Group.

10.8.2 Maturities

The following table contains a breakdown of financial assets (excluding equity investments and derivatives) by remaining period to maturity and a breakdown of the financial liabilities (excluding derivatives) by legal maturity:

	As of June 30,		**As of December 31,**					
	2017		**2016**		**2015**		**2014**	
	Assets	**Financial liabilities**	**Assets**	**Financial liabilities**	**Assets**	**Financial liabilities**	**Assets**	**Financial liabilities**
	(in € million)				**(in € million)**			
Up to 3 months	5,751	21,680	3,559	21,896	4,486	19,442	3,514	16,648
3 months up to 1 year	2,597	3,228	3,115	3,762	1,610	3,131	2,237	5,478
1-5 years	11,688	6,589	12,880	4,781	11,629	4,554	13,042	4,157
Over 5 years	16,905	3,166	16,948	3,638	14,920	2,656	12,729	3,377
Total	**36,921**	**34,663**	**36,502**	**34,077**	**32,645**	**29,783**	**31,522**	**29,660**

Source: BAWAG Group's Financial Statements and Company information.

10.8.3 Funding

The following table contains a breakdown of sources of funding:

	As of June 30,	**As of December 31,**		
	2017	**2016**	**2015**	**2014**
	(unaudited) (in € million)	**(audited, unless otherwise indicated) (in € million)**		
Retail deposits[1)2)]	21,693	21,951	18,867	18,746
Corporate deposits[1)3)]	3,666	4,047	2,825	2,381
Own issues	5,967	6,015	4,505	6,113
Banks	3,337	2,064	3,586	2,420
Others[1)]	1,680	2,530	2,968	2,575
Equity	**3,349**	**3,136**	**2,957**	**2,619**

1) Numbers taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) Retail deposits refer to deposits allocated to the segments BAWAG P.S.K. Retail and easygroup.
3) Corporate deposits refer to deposits allocated to the segments DACH Corporates & Public Sector and International Business.

Source: BAWAG Group's Financial Statements and Company information.

The following table contains a breakdown of own issues (issued bonds, subordinated and supplementary capital):

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)		(unaudited) (in € million)	
Covered[1]	2,255	1.779	1,227	1,388
Senior unsecured[1]	2,644	3.077	2,715	3,732
Subordinated[1]	573	574	563	993
RMBS[1]	495	585	–	–
Total	**5,967**	**6,015**	**4,505**	**6,113**

1) Numbers taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).

Source: BAWAG Group's Financial Statements and Company information.

Retail and corporate savings products are the core of BAWAG Group's funding strategy and BAWAG Group expects it will continue to be the dominant source of funding for the balance sheet. The increase in deposits in the financial year 2016 compared to the financial year 2015 was mainly caused by the acquisitions of start:bausparkasse and IMMO-BANK in December 2016. The core deposit base of BAWAG Group without these acquisitions remained stable. The deposits are supplemented by a diversified strategy of wholesale funding with a focus on secured funding to reduce funding costs. BAWAG Group also considers capital markets funding as a source of longer-term funding, including funding in currencies other than the euro.

In the six months ended June 30, 2017, relevant activities included the placement of a public sector covered bond in the notional amount of € 500 million and the participation in the final call for the second series of targeted longer-term refinancing operations (TLTRO II) of the ECB.

In the financial years 2016 and 2015, relevant activities included the issue of two € 500 million mortgage covered bonds in September 2015 and February 2016, the placement of senior unsecured bonds in a total amount of CHF 275 million in October 2016 and the placement of RMBS in the aggregate amount of £ 500 million.

For further information, see "*10.2.9 Funding*".

10.8.4 Credit Ratings

On April 20, 2017, Moody's announced upgrades to BAWAG P.S.K.'s credit ratings. The long-term senior unsecured debt, issuer and deposit ratings were all raised by one notch to A2 while the positive outlook on these ratings was maintained. At the same time, BAWAG P.S.K.'s standalone rating (baseline credit assessment) as well as its subordinate debt rating were also upgraded by one notch to Baa1 and Baa2, respectively. In addition, Moody's indicated further rating upside potential over the next 12–18 months.

In 2016, BAWAG P.S.K. was rated by Fitch Ratings Limited ("**Fitch**") for the first time. The long-term issuer rating and the standalone rating were both set at A- with a stable outlook. Fitch stated that the main rating drivers were, amongst others, a strong and experienced management team who has demonstrated a track record in realigning the business model following its restructuring, the conservative risk appetite and strong asset quality reflecting the focus on high-quality assets in developed markets, an established brand and strong retail franchise in Austria with a good performance record supported by a focus on cost control, general pricing discipline as well as a strong capitalization and performance in regulatory stress tests.

Each rating reflects the view of the rating agency at the time it gave BAWAG P.S.K. the rating. The rating agencies may change their ratings at any time if they believe that circumstances so warrant. Potential investors should not view these long-term ratings as recommendations to buy, hold or sell any indebtedness or securities of BAWAG P.S.K., and such ratings do not address any potential investment in the Existing Shares.

BAWAG Group AG, the holding company of BAWAG Group, is currently not rated by these rating agencies.

For further information, see "*10.2.9 Funding*".

10.8.5 Key Regulatory Capital and Leverage Ratios

The Company, its five banking subsidiaries BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK and start:bausparkasse, as well as certain other subsidiaries form a regulatory banking group (*Kreditinstitutsgruppe*), referred to as 'BAWAG Banking Group' in this Prospectus, which is subject to consolidated supervision by the ECB and the FMA. Supervision on a consolidated basis at the level of BAWAG Banking Group captures capital requirements, limitations on large exposure, liquidity, organizational and risk management requirements and public disclosure obligations. Until recently, the entities of BAWAG Banking Group formed an additional regulatory banking group together with PSH which is referred to as 'PSH Group' in this Prospectus. However, at or around Pricing, PSH will cease to be the majority shareholder of the Company, and, therefore, BAWAG P.S.K. and the Company expect that supervision by the ECB and the FMA will, in the future, no longer extend to PSH Group. For further details, see "*17.2.2 Consolidated Supervision*".

The capital management of BAWAG Group is based on own funds as defined by the CRR and the corresponding national regulations (Basel 3 Pillar 1) and the economic capital management approach (Basel 3 Pillar 2) related to the internal capital adequacy assessment process ("**ICAAP**").

The ICAAP is modeled taking into account BAWAG Group's business and risk profile and is an integral part of BAWAG Group's planning and the control system. In the course of the ICAAP, the risk-bearing capacity of BAWAG Group is ensured and the efficient use of capital for risk coverage monitored. In addition, stress tests complement the steering process. For further information on the Internal Capital Adequacy Assessment Process, see "*17 Regulation and Supervision*".

Until and including the financial year 2016, the ECB carried out the SREP for BAWAG P.S.K. and BAWAG Group at the highest level of prudential consolidation, i.e., at the level of PSH. As part of the SREP, the overall risk management process of PSH Group was reviewed in detail. The review concluded that the level of own funds held within PSH Group with respect to its financial situation and risk profile is broadly adequate. The official notification also included the specification of an SREP ratio at the level of PSH Group.

As part of the SREP, the competent supervisory authority (which in the case of BAWAG Group is the ECB) examines the arrangements taken by an institution to comply with the provisions and assesses the risks to which the institution is or might be exposed and the (systemic) risks that an institution poses. In addition to credit, market and operational risks, the SREP also includes a review of liquidity risk management, interest rate risk arising from non-trading activities, the risk of excessive over-indebtedness, concentration risks, the results of stress tests, the impact of diversification effects and how such effects are factored into the risk measurement system, the business model of the institution, governance arrangements, the corporate culture, and the ability of members of the management body to perform their duties. The frequency and intensity of the review and evaluation will be determined by the supervisory authority having regard to the size, systemic importance, nature, scale and complexity of the activities of the institution concerned, taking into account the principle of proportionality. With a view to standardizing the SREP throughout the EU, the EBA published on December 19, 2014, its Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2014/13). These guidelines regulate in detail the categorization of institutions, the monitoring of key indicators for the early identification of changes in financial condition or in risk profile, the analysis of the business model, the assessment of internal governance and institution-wide control arrangements, the evaluation of capital risks and adequacy, the evaluation of liquidity risks and adequacy, the summary of the overall assessment and the regulatory measures implemented to mitigate the risks that have emerged. From January 1, 2016, the new guidelines should be applied by all European banking supervisors, including the ECB.

At the end of the review process, the competent supervisory authority takes an SREP decision in relation to each relevant bank setting out, depending on the outcome of the SREP, specific capital and liquidity requirements for each affected bank. Any additional bank-specific capital requirements resulting from the SREP are referred to as Pillar 2 Requirements and must be fulfilled in addition to the statutory minimum capital requirements and capital buffers. The Pillar 2 Requirement must be met with CET1 capital. Also following the SREP, the ECB may communicate to individual banks an expectation to hold a further Pillar 2 Guidance. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding and failure to meet the Pillar 2 Guidance does not automatically trigger legal action. Finally, also based on the outcome of the SREP, the competent supervisory authority may take a range of other measures in response to shortcomings in a bank's governance and risk management processes as well as its capital or liquidity position, such as prohibiting dividend payments to shareholders or distributions to holders of regulatory capital instruments.

The minimum CET1 ratio according to the SREP applicable to PSH Group for 2016 amounted to 9% (including a systemic buffer of 0.25%). For 2017, the total SREP capital requirement amounts to 9.75% (which includes the minimum own funds requirements under the CRR of 8% and an additional Pillar 2

Requirement of 1.75%, which BAWAG Group expects to increase to around 2.25% for 2018). The minimum CET1 ratio applicable to PSH Group according to the SREP is 8.0% (including a capital conservation buffer of 1.25% and a systemic risk buffer of 0.5%) and the minimum total capital requirement amounts to 11.5%. In addition to the total SREP capital requirement, the SREP for 2017 also includes, for the first time, a Pillar 2 Guidance, which has been set at 1% for PSH Group. The regulator, therefore, expects BAWAG Group to maintain an overall CET1 ratio of 9% (8% SREP CET ratio plus 1% Pillar 2 Guidance) and an overall own funds ratio of 12.5% (11.5% minimum total capital requirement plus 1% Pillar 2 Guidance).

The following table gives an overview of the different Pillar 1 and Pillar 2 minimum capital requirements (but excluding the "Pillar 2" guidance) as well as capital buffer requirements applicable to BAWAG Group in the years 2016 and 2017 (on a phase-in basis):

Overview total capital requirements and capital buffers

	2017	2016
Pillar 1		
Minimum CET1 Requirement	4.50%	4.50%
Capital Conservation Buffer	1.25%	0.625%
Countercyclical Buffer	0.02%	0.02%[1)]
G-SII Buffer[2)]	n/a	n/a
O-SII Buffer[2)]	0.25%	0.125%
Systemic Risk Buffer[2)]	0.50%	0.25%[2)]
Pillar 2		
Pillar 2 SREP Add-on of CET1 capital (excluding the "Pillar 2" guidance)	1.75%	3.625%
Total SREP CET1 Requirement[3)]	6.25%	8.125%
Overall CET1 Requirement[4)]	8.0%	9.0%
Overall Tier 1 Requirement[4)]	9.5%	6.875%[5)]
Overall total capital requirement[4)]	**11.5%**	**8.875%**[5)]

1) BAWAG Group's countercyclical buffer requirement is subject to country-specific buffer rates decreed by EBA and the Basel Committee of Banking Supervision (BCBS) as well as BAWAG Group's relevant credit exposures as per respective reporting date. The countercyclical buffer rate for 2017 is 0.02% (calculation based on the figures as of June 30, 2017).
2) Unless certain exceptions apply only the higher of the systemic risk buffer, G-SII and O-SII buffer must be applied.
3) Total SREP CET1 Requirement includes Pillar 1 and Pillar 2 requirement, no buffer included.
4) Overall CET 1 / Tier 1 / total capital requirement (excluding the "Pillar 2" guidance) is calculated as the sum of the Total SREP requirement (Pillar 1 and Pillar 2), the capital conservation buffer, the higher of the G-SII, O-SII and systemic risk buffer requirement as well as the countercyclical buffer requirement.
5) In SREP for 2016 Pillar 2 requirement was required only for CET1 capital. Hence, the overall Tier 1 requirement and the overall total capital requirement for 2016 did not include the Pillar 2 SREP Add-on of CET1 capital.

Source: Company information.

In addition to the minimum capital ratios required by its regulators, BAWAG Group defines early warning and recovery levels in PSH's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of the BaSAG.

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

BAWAG P.S.K. manages BAWAG Group's capital position based on a Fully Loaded CRR environment and, therefore, without the benefit of any transitional rules regarding capital components and the calculation of risk-weighted assets. The capital management team makes recommendations to the management board of BAWAG P.S.K. for strengthening the own funds coverage when necessary and reports to the enterprise risk meeting once a month (see also "*15.4.2 Management Board of BAWAG P.S.K.*").

The following tables show the breakdown of own funds of BAWAG Group (except for the Liquidity Coverage Ratio (LCR) which, because of regulatory requirements, is based on figures for PSH Group) as well as certain regulatory figures on a Fully Loaded basis:

	As of June 30,	**As of December 31,**		
	2017	**2016**	**2015**	**2014**
	BAWAG Group	**BAWAG Group**	**BAWAG Group**	**BAWAG Group**
	(unaudited) (in € million, unless otherwise indicated)	**(audited) (in € million, unless otherwise indicated)**		
Share capital and reserves (including funds for general banking risk)	3,348	3,158	2,988	2,612[1]
Not yet distributed dividend[2]	0	0	(313)	(3)
Deduction of intangible assets	(325)	(316)	(290)	(353)
Other comprehensive income	(20)	(30)	(33)	20
IRB risk provision shortfalls	(43)	(32)	(49)	(53)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(22)	(33)	(32)	(44)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences[3]	(150)	(156)	(130)	(126)
Excess of deduction from AT1 items over AT1 capital	0	0	0	0
Common Equity Tier 1	**2,788**	**2,591**	**2,141**	**2,053**
IRB risk provision shortfalls	0[4]	0	0	0
Deduction of intangible assets	0	0	0	0
Excess of deduction from AT1 items over AT1 capital	0	0	0	0
Additional Tier 1	**0**	**0**	**0**	**0**
Tier 1	**2,788**	**2,591**	**2,141**	**2,053**
Supplementary and subordinated debt capital	478	484	477	533
Excess IRB risk provisions	28	25	16	21
Hybrid capital	0	0	0	85
Less significant investments, IRB risk provision shortfalls	(21)	(20)	(22)	(22)
Tier 2	**485**	**489**	**472**	**617**
Own funds[5]	**3,273**	**3,080**	**2,612**	**2,670**

1) Numbers taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
2) In the third quarter 2016, the Company paid a dividend of € 309 million to PSH, the sole shareholder of the Company. PSH paid a dividend of € 265 million to its shareholders. Another € 25 million have not yet been paid out but deducted from CET1 as a foreseeable dividend.
3) For the changes in deferred tax assets that rely on future profitability excluding those arising from temporary differences, the main drivers are the different transitional rules applicable for the financial years 2014 to 2016. The applicable percentage of deferred tax assets that rely on future profitability, excluding those arising from temporary differences, that are deducted from CET1 was 0% for the financial year 2014, 10% for the financial year 2015 and 40% for the financial year 2016. Further, the deferred tax assets that rely on future profitability, excluding those arising from temporary differences, activated in the financial year 2016 do not qualify for the transitional rules and are deducted in full.
4) According to CRR, loan loss provisions as of December 31, 2016, including disposals until June 30, 2017.
5) Own funds as of June 30, 2017, differ from those as of December 31, 2016, own funds as of December 31, 2016, differ from those as of December 31, 2015, and own funds as of December 31, 2015, differ from those as of December 31, 2014, inter alia, because of different CRR transitional rules for the financial years 2017, 2016 and 2015 compared to the financial years 2016, 2015 and 2014, respectively, for the eligibility of capital (mainly available-for-sale reserve) and deductions from own funds (mainly intangible assets and IRB risk provision shortfall).

Source: BAWAG Group's Financial Statements and Company information.

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	BAWAG Group	BAWAG Group	BAWAG Group	BAWAG Group
	(unaudited) (in € million except for percentages, unless otherwise indicated)	(audited, unless otherwise indicated) (in € million except for percentages, unless otherwise indicated)		
CET1 capital	**2,788**	**2,591**	**2,141**	**2,053**
AT1	0	0	0	0
Tier 1	2,788	2,591	2,141	2,053
Tier 2	485	489	472	617
Own funds	3,273	3,080	2,612	2,670
Credit risk	16,413[1)]	17,352[1)]	15,736[1)]	15,093
Market risk	45	59	97	103
Operational risk	1,580	1,633	1,620	1,615
Risk-weighted assets	**18,039**[1)]	**19,044**[1)]	**17,453**[1)]	**16,811**
Total capital ratio (Fully Loaded)	18.1%[1)]	16.2%[1)]	15.0%[1)2)]	15.9%
Total capital ratio (transitional)	17.0%[1)]	16.4%[1)]	15.6%[1)2)]	16.2%
CET1 ratio (Fully Loaded)	15.5%[1)]	13.6%[1)]	12.3%[1)2)]	12.2%
CET1 ratio (transitional)	14.4%[1)]	13.9%[1)]	12.9%[1)2)]	13.0%
Leverage ratio (Fully Loaded)[3)4)]	7.0%	6.5%	6.5%	5.7%
Leverage ratio (transitional)[3)]	6.6%	6.6%	6.1%	5.3%
Liquidity coverage ratio (LCR)[3)5)]	146.0%	137.8%	136.6%	134.0%

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection and "*10.4.3 Summary of Key Financials and Key Performance Indicators for BAWAG Group*" and "*10.4.4 Summary of Key Financials and Key Performance Indicators for the Segments of BAWAG Group*" for further details on the adjustments.
2) Numbers were restated as per the capital management in the Audited Consolidated Financial Statements as of and for the financial year 2016 and reflect the reclassification of holding customers.
3) Numbers taken from BAWAG Group's accounting records or internal management reporting systems (unaudited).
4) Figures for Leverage ratio (Fully Loaded) include interim profits.
5) Number is taken from PSH's accounting records or internal management reporting systems (unaudited) and is based on figures for PSH Group.

Source: BAWAG Group's Financial Statements and Company information.

10.8.6 Cash Flows

The following table shows selected data from the consolidated statement of cash flows of BAWAG Group for the six-month period ended June 30, 2017, compared to the six-month period ended June 30, 2016, and for the financial years ended December 31, 2016, 2015, and 2014.

	For the six-month periods ended June 30,		For the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(unaudited) (in € million)		(audited) (in € million)		
Cash and cash equivalents at end of previous period	**1,020**	**809**	**809**	**684**	**481**
Net cash from operating activities	(264)	(34)	1,129	(283)	726
Net cash used in investing activities	145	(235)	(575)	853	(171)
Net cash from financing activities	(14)	(7)	(343)	(445)	(352)
Cash and cash equivalents at end of period	**887**	**533**	**1,020**	**809**	**684**

Source: BAWAG Group's Financial Statements.

10.8.6.1 Cash and Cash Equivalents

As of June 30, 2017, cash and cash equivalents amounted to € 887 million, an increase of € 354 million, or 66.4%, from € 533 million as of June 30, 2016.

As of December 31, 2016, cash and cash equivalents amounted to € 1,020 million, an increase of € 211 million, or 26.1%, from € 809 million as of December 31, 2015.

As of December 31, 2015, cash and cash equivalents amounted to € 809 million, an increase of € 125 million, or 18.3%, from € 684 million as of December 31, 2014.

10.8.6.2 Cash Flows from Operating Activities

For the six-month period ended June 30, 2017, cash flows from operating activities amounted to € (264) million, a decrease of € 230 million from € (34) million for the six-month period ended June 30, 2016, due to a net cash outflow in other financial assets and liabilities and other assets and liabilities. In addition, profit after tax decreased from € 283.7 million in the six-month period ended June 30, 2016, to € 203.5 million in the six-month period ended June 30, 2017.

For the financial year 2016, net cash from operating activities amounted to € 1,129 million, an increase of € 1,412 million from € (283) million for the financial year 2015, due to the issuance of new bonds.

For the financial year 2015, net cash from operating activities amounted to € (283) million, a decrease of € 1,009 million, or 139.0%, from € 726 million for the financial year 2014, due to the redemption of issued bonds.

10.8.6.3 Cash Flows Used in Investing Activities

For the six-month period ended June 30, 2017, cash flows used in investing activities amounted to € 145 million, an increase of € 380 million, from € (235) million for the six-month period ended June 30, 2016, as net cash flow from transactions with available-for-sale securities changed from negative to positive, i.e., sales exceeded purchases.

For the financial year 2016, net cash used in investing activities amounted to € (575) million, a decrease of € 1,428 million, or 167.4%, from € 853 million for the financial year 2015, as net cash flow from transactions with available-for-sale securities changed from positive to negative, i.e., purchases exceeded sales.

For the financial year 2015, net cash used in investing activities amounted to € 853 million, an increase of € 1,024 million from € (171) million for the financial year 2014, as net cash flow from transactions with available-for-sale securities changed from negative to positive, i.e., sales exceeded purchases.

10.8.6.4 Cash Flows from Financing Activities

For the six-month period ended June 30, 2017, cash flows from financing activities amounted to € (14) million, a decrease of € 7 million, or 100%, from € (7) million for the six-month period ended June 30, 2016, primarily driven by a net cash outflow in the position subordinated and supplementary capital.

For the financial year 2016, net cash from financing activities amounted to € (343) million, an increase of € 102 million, or 22.9%, from € (445) million for the financial year 2015, primarily driven by dividend payments in the amount of € 309 million in the financial year 2016.

For the financial year 2015, net cash from financing activities amounted to € (445) million, a decrease of € 93 million, or 26.4%, from € (352) million for the financial year 2014, primarily driven by the redemption of € 435 million in subordinated capital in the financial year 2015.

10.8.7 Investments

Capital expenditures on property, plant and equipment, investment properties and intangible assets are of minor significance for BAWAG Group due to its purpose of conducting banking business, particularly lending business.

The following table shows the investments by BAWAG Group in property, plant and equipment, in investment properties as well as in intangible assets for the six-month period ended June 30, 2017, and the financial years ended December 31, 2016, 2015, and 2014.

	For the six-month periods ended June 30,	For the financial years ended December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)	(unaudited) (in € million)		
Property, plant and equipment	1	4	8	14
Investment properties	–	–	–	–
Intangible assets	25	50	26	35
thereof goodwill	–	–	–	–
thereof brand name and customer relationships	–	–	–	–
thereof software and other intangible assets	25	50	26	35

Source: BAWAG Group's Financial Statements and Company information.

With regard to investments relating to acquisitions, namely the acquisitions of start:bausparkasse and IMMO-BANK, the French and U.K. Mortgage Loan Portfolios and VB Leasing, see "*10.2 Key Events in the Periods under Review*".

For the period from July 1, 2017 until the date of this Prospectus, BAWAG Group has not made material capital expenditures.

In the lease agreements relating to BAWAG Group's new headquarters that were entered into in December 2016, BAWAG Group has agreed to bear certain costs for the completion of the interior of office space and conference rooms in an estimated amount of € 15.1 million and € 1.4 million, respectively, payable in monthly installments starting on January 1, 2018.

With regard to the acquisitions of PayLife and Südwestbank, see "*10.2.1 Acquisition of PayLife*" and "*14 Acquisition of Südwestbank*", respectively.

As at the date of this Prospectus, BAWAG Group has not resolved on any further major investments.

10.8.7.1 Property, Plant and Equipment and Investment Properties

In the six-month period ended June 30, 2017, BAWAG Group made investments in the amount of € 1 million in property, plant and equipment related to office furniture and equipment, and investments in the amount of € 4 million in the financial year 2016, € 8 million in the financial year 2015 and € 14 million in the financial year 2014. These investments were mainly undertaken in Austria.

In the six-month period ended June 30, 2017, as well as in the financial years 2016, 2015, and 2014 there have not been any material investments in investment properties.

10.8.7.2 Intangible Assets

In the six-month period 2017, BAWAG Group made investments in the amount of € 25 million in intangible assets related to software and other intangible assets. These investments were mainly for upgrades to the digital banking platform (e.g., the option to open securities accounts online and the introduction of a video advisory tool for online banking), continued building of a customer database and data analytics, the integration of start:bausparkasse and IMMO-BANK, the continued implementation of an integrated advisory front-end (GATE), the new product consumer finance extension tool and upgrades to automated processes as well as shifting credit account statements from hard copies to electronic form. These investments were mainly undertaken in Austria.

In the financial year 2016, BAWAG Group made investments in the amount of € 50 million in intangible assets related to software and other intangible assets. These investments were mainly for upgrades to the digital banking platform (e.g., the option to open current accounts online and the introduction of a video advisory tool for online banking), continued building of a customer database and data analytics, the integration of start:bausparkasse and IMMO-BANK, new advisory tools for branch advisors, the continued implementation of an integrated advisory front-end (GATE) and upgrades to automated processes as well as shifting credit account statements from hard copies to electronic form. BAWAG Group further switched its transaction authentication number ("**TAN**") method from paper to the Austrian multi bank standard card, upgraded its internal risk-weighted asset engine and market risk modeling and upgraded its systems and software to comply with changes in regulatory requirements. These investments were mainly undertaken in Austria.

In the financial year 2015, BAWAG Group made investments in intangible assets in the amount of € 26 million, resulting from investments in software and other intangible assets. These investments related primarily to upgrades to the digital banking platform (e.g., online sale of deposits and cards), the integration of VB Leasing, upgrades to automated processes and self-service stations as well as upgrades to software and systems with regard to digital account cards, new deposit models, the internal control system and the introduction of a sales force motivation system and an integrated advisory front-end (GATE). Furthermore, upgrades to software and systems were performed with a view to negative reference interest rates and changes in regulatory requirements. These investments were mainly undertaken in Austria.

In the financial year 2014, BAWAG Group made investments in intangible assets in the amount of € 35 million, resulting from investments in software and other intangible assets mainly relating to the digital banking platform (e.g., online loan origination and access to Western Union), building a customer database and data analytics, upgrades to automated processes, self-service stations and direct marketing, the implementation of software for prepaid cards, improvements and upgrades to tools for management of collateral and the implementation of the Statistical Analysis System with regard to the ICAAP. Further upgrades were performed with regard to changes in regulatory requirements. These investments were mainly undertaken in Austria.

10.9 Contractual Obligations

10.9.1 Contingent Liabilities and other Commitments

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(unaudited) (in € million)		(audited) (in € million)	
Contingent liabilities	**167**	**193**	**349**	**442**
Arising from guarantees	167	193	349	442
Unused customer credit lines	**4,443**	**4,567**	**5,467**	**5,920**
thereof terminable at any time and without notice	3,110	3,174	4,196	4,525
thereof not terminable at any time	1,333	1,393	1,271	1,395

Source: BAWAG Group's Financial Statements and Company information.

Contingent liabilities amounted to € 167 million as of June 30, 2017, a decrease of € 26 million, or 13.5%, from € 193 million as of December 31, 2016, which in turn was a decrease of € 156 million, or 44.7%, from € 349 million as of December 31, 2015. Contingent liabilities were € 349 million as of December 31, 2015, a decrease of € 93 million, or 21.0% from € 442 million as of December 31, 2014. This development was due to relationships with non-core clients being discontinued as DACH Corporates & Public Sector focused on primary clients.

Unused customer credit lines amounted to € 4,443 million as of June 30 2017, a decrease of € 124 million, or 2.7%, from € 4,567 million as of December 31, 2016. This in turn was a decrease of € 900 million, or 16.5%, from € 5,467 million as of December 31, 2015, a further decrease of € 453 million, or 7.7%, from € 5,920 million as of December 31, 2014. Of this amount, unused customer credit lines terminable at any time and without notice amounted to € 3,110 million as of June 30 2017, a decrease of € 64 million, or 2.0%, from € 3,174 million as of December 31, 2016. This in turn was a decrease of € 1,022 million, or 24.4%, from € 4,196 million as of December 31, 2015, a further decrease of € 329 million, or 7.3%, from € 4,525 million as of December 31, 2014. Unused customer credit lines not terminable at any time amounted to € 1,333 million as of June 30, 2017, a decrease of € 60 million, or 4.3%, from € 1,393 million as of December 31, 2016. This was an increase of € 122 million, or 9.6%, from € 1,271 million as of December 31, 2015, which in turn was a decrease of € 124 million, or 8.9%, from € 1,395 million as of December 31, 2014, due to DACH Corporates & Public Sector discontinuing relationships with non-core customers.

10.9.2 Pension and Other Long-Term Employee Benefit Obligations

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

The present values of obligations outstanding as of the measurement date are calculated on the basis of actuarial assumptions applying an appropriate discount rate and taking into account the expected rates of increase in salaries and post-employment benefits. They are recognized as a provision in the consolidated statement of financial position. Actuarial gains and losses relating to provisions for post-employment and termination benefits are recognized in full in the year in which they are incurred in other comprehensive income.

The interest rate used in the six-month period ended June 30, 2017, was 1.80%, changed from 1.75% in the financial year 2016 and 2.05% in the financial year 2015. The generation mortality tables AVÖ 2008-P-Angestellte were used when calculating the long-term employee benefit provisions.

The existing post-employment benefit plans of BAWAG Group that are financed entirely through provisions because they are defined benefit obligations pertain primarily to post-employment benefit rights and future rights of employees of BAWAG Group. The allocated assets disclosed by the pension fund as set up for certain beneficiaries are set off against the determined amounts of provisions for post-employment benefits.

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

The post-employment benefit rights of the majority of employees are covered by BONUS Pensionskassen AG and Bundespensionskasse AG (defined contribution plans). The contributions that are made to these pension funds are recognized as expenses in the current period. BAWAG Group is under no obligation to compensate for negative effects from non-performance on the part of BONUS Pensionskassen AG and Bundespensionskasse AG.

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation.

10.10 Critical Accounting Estimates and Policies

10.10.1 Latitude of Judgment and Uncertainty of Estimates

The consolidated financial statements include values which are determined, as permitted, on the basis of estimates and judgments. The estimates and judgments used are based on past experience and other factors, such as planning and expectations or forecasts of future events that are considered likely as far as BAWAG Group knows today. The estimates and judgments themselves and the underlying estimation methods and judgment factors are reviewed regularly and compared with actual results.

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

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Assessments as to whether or not cash generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty.

In determining the amount of deferred tax assets, BAWAG Group uses historical utilization possibilities of tax loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. BAWAG Group regularly reevaluates its estimates related to deferred tax assets, including its assumptions about future profitability.

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

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; and
- assessment of legal risks and outcome of legal proceedings.

Latitude of Judgment and Uncertainty of Estimates – City of Linz

Uncertainties in estimations also apply to the claim of BAWAG P.S.K. against the City of Linz. On February 12, 2007, the City of Linz and BAWAG P.S.K. concluded a forward financial transaction. This transaction was intended by the City of Linz to optimize a CHF loan.

Because of the development of the Swiss franc exchange rate starting in the autumn of 2009, the City of Linz was obligated to make increased contractual payments to BAWAG P.S.K. On October 13, 2011, the Linz City Council decided that it would make no more payments in connection with the derivative transaction. Consequently, BAWAG P.S.K. exercised its right to close out the derivative transaction. BAWAG P.S.K. has valued the derivative transaction until termination according to the general principles and has adequately accounted for the risks associated with the claim arising from this derivative. In particular, management had to estimate the risks that are associated with the transaction, such as non-payment, legal, process and other operational risks and had to make judgments as part of the continuous valuation process; this resulted in the respective valuation adjustments.

After the termination of the transaction, the derivative was derecognized and a receivable was recognized under Receivables from customers (classified under Loans and advances). BAWAG Group bases its assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim. See also "*10.10.3 Methods for Determining the Fair Value of Financial Instruments*".

No amounts are being disclosed in application of IAS 37.92 (protective provisions for information in the notes).

10.10.2 Loan Loss Provisions

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

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

The loan loss provisions cover provisions for loan defaults or counterparty risks and are formed as individual and general provisions on the basis of past experience. The loan loss provisions from lending are netted off against the corresponding receivables on the statement of financial position. Provisions for off-balance-sheet loans are reported as provisions.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counterparty risks is based on expected future recoveries in accordance with the risk analysts' estimates. Provisions for counterparty risks that were not individually significant were accounted for generally, on a percentage basis, with regard to the amounts overdue and based on BAWAG Group's historical loss experience.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

A loan loss provision is accounted for on a portfolio basis in accordance with IAS 39.AG89 for losses incurred but not reported as of the reporting date. The portfolio loan loss provision is recognized for on- and off-balance-sheet receivables of BAWAG Group's loan portfolio including securities but excluding items recognized at fair value. For loans backed by a Repayment Vehicle, which mainly include loans in foreign currencies, a provision based on funding gaps is considered as well. The amount of the IBNR is calculated on the basis of the regulatory Expected Loss Model. The actual loss that has been incurred is extrapolated from the expected loss, taking into account the duration from occurrence to detection of the loss (the loss identification period – LIP). For this reason, financial assets are grouped on the basis of similar credit risk characteristics (IAS 39.AG87). The classification is based on the categories of claims against banks, corporates, sovereigns and retail. LIP is calculated for each segment and is based on the average time until identification of the 90 days overdue status based on expected cash inflows according to the repayment plans. LIP is calculated as the exposure weighted average in months. Depending on the risk monitoring process, a shorter LIP than calculated based on expected cash flows is anticipated.

10.10.3 Methods for Determining the Fair Value of Financial Instruments

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in the notes to the financial statements.

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

For positions in the trading book, the closing costs of the positions (bid/ask spreads) on a net basis are calculated and booked on a regular basis.

The total value of an interest rate swap is derived from the present values of its fixed and variable rate legs. Similarly, the total value of a cross currency swap is derived from the present values of the two cash flows expressed in terms of the functional currency of the respective BAWAG Group entity. In the case of foreign currency forwards and futures, the agreed forward rate, which depends on movements in exchange and interest rates for both currencies, is compared with the forward rate on the reporting date and the result is used to calculate the instrument's value.

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

BAWAG Group determines a credit (CVA) or debt value adjustment (DVA) for the credit risk of OTC derivatives. If available, liquid credit default swap (CDS) spreads are generally used to determine the probability of default (PD) and the recovery rate (REC). If this is not possible, equivalent segments of the CDS market are used.

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

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

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

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

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

In the case of the close-out of a derivative transaction with a customer, the type of claim changes. Before the contract is terminated, the asset is a derivative, while after the contract is closed out, the asset is a contractual claim whose value no longer changes depending on market parameters. For this reason, the claim no longer satisfies the definition of a derivative according to IAS 39.9. In the event of the early termination of a derivative transaction, the variability of the payment flows in terms of amount and time of occurrence are materially changed by the close-out, and the original derivative is replaced with a new asset. This new asset is recognized at its fair value according to IAS 39.43. The fair value corresponds to the carrying amount of the derivative at the time that the agreement is terminated, including any valuation adjustments applied up to the time of termination. A claim arising from the termination of the agreement meets the criteria in IAS 39.9 for categorization under loans and receivables. This approach was chosen following IAS 39.40 and IAS 39.21, since IAS 39 contains no explicit rules for when a financial instrument first fulfills the characteristics of a derivative and then no longer exhibits these characteristics at a later time. According to IAS 8.10 to 8.12, such gaps in the standards must be closed by applying a similar provision in the IFRS and taking the framework into account. This method was particularly significant in the transaction with the City of Linz in 2011.

10.10.4 Hedge Accounting

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

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

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

Micro Fair Value Hedge

In a micro fair value hedge, a financial asset or financial liability or a group of similar financial assets or financial liabilities is hedged against changes in its fair value. Changes in the value of the hedged item and the hedging instrument are recognized in the profit or loss statement in the line item gains and losses on financial assets and liabilities in the same period.

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

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

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

Portfolio Fair Value Hedge

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

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

Cash Flow Hedge

Since January 2016, BAWAG Group has applied cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

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

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

In other operating 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 financial year 2016 and the six-month period ended June 30, 2017, fair value gains in the amount of € 8.4 million and fair value losses in the amount of € (6.0) million, respectively, 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.

10.10.5 Income Taxes and Deferred Taxes

According to IAS 12, income taxes must be computed and reported using the liability method. The computation is based on the local tax rates that are legally binding at the time the consolidated financial statements are prepared. Deferred tax assets and liabilities result from different methods used to measure assets and obligations on the statement of financial position under IFRS and the respective tax code. This generally leads to positive or negative differences in the income tax to be paid for future periods (temporary differences). A deferred tax asset is recognized for the carryforward of unused tax losses when it is probable that future taxable profit will be generated by the same taxable unit. Deferred tax assets and liabilities are not discounted.

Tax expenses allocable to the taxable profit were recognized in the profit or loss statement under income taxes and broken down into current and deferred income taxes. Other taxes that are not attributable to profit are recognized under other operating income and expenses.

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of December 31, 2016, unused tax losses amounted to € 381 million (financial year 2015: € 361 million) at the level of the Company, € 594 million (financial year 2015: € 868 million) at the level of BAWAG P.S.K., € 0 million (financial year 2015: € 0 million) at the level of members of the tax group included in the consolidated financial statements and € 5 million (financial year 2015: € 66 million) at the level of other companies included in the consolidated financial statements, hence a total of € 980 million (financial year 2015: € 1,295 million).

The usability of unused tax losses and deferred tax assets by the Company was tested on the basis of BAWAG Group's long-term plan (planning period: five years). As of December 31, 2016, the expected utilization of unused tax losses is projected to amount to € 980 million (financial year 2015: € 868 million). Based on the Austrian corporate tax rate of 25%, deferred tax assets for tax loss carryforwards in the amount of € 245 million (financial year 2015: € 217 million) are recognized within BAWAG Group as of December 31, 2016. If the forecasted taxable results varied by 10% compared to management estimations, deferred tax assets would remain unchanged (financial year 2015: would remain unchanged) if results improve and would remain unchanged (financial year 2015: would remain unchanged) if forecasted results turn out to be lower than expected.

10.10.6 Implementation of IFRS 9

For the implementation of IFRS 9, see "*15.5.8 Implementation of IFRS 9*".

11 SELECTED BANK STATISTICAL AND OTHER DATA

The tables below set forth selected statistical information of BAWAG Group. The information below is derived from BAWAG Group's consolidated financial information and from internal records and is unaudited unless indicated otherwise. The information should be read together with the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2016, 2015, and 2014, as well as the Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017, (including comparative figures for the six-month period ended June 30, 2016) and the respective related notes included therein, which are contained in this Prospectus. See also "*10 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*" and "*9 Selected Financial and Business Information*".

Certain figures in this section have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be precise arithmetic sums or percentages of the figures that precede them. In addition, certain percentages in this section have been calculated using rounded figures.

11.1 Average Balance Sheets

The following table presents BAWAG Group's average balance sheet and net interest income for the periods specified. The average balances are calculated in general based upon month-end balances. The average yield is the net interest income and expense for the period weighted by the average balance.

Year-end assets booked in foreign entities amounted to less than 1% of total assets in the last three financial years, and there were no such assets booked in foreign entities as of December 31, 2016.

11.1.1 Average Balance Sheet and Interest and Similar Income

Monthly averages	For the financial year ended December 31, 2016			2015			2014		
(in € million)	Average book value	Interest income	Average yield	Average book value	Interest income	Average yield	Average book value	Interest income	Average yield
ASSETS									
Customer Loans	24,624.7	668.3	2.71%	22,547.4	620.7	2.75%	21,846.2	603.2	2.76%
Loans to Credit Institutions	877.0	1.3	0.15%	1,427.9	2.2	0.15%	1,742.5	4.4	0.25%
Total Loans[1]	**25,501.7**	**669.6**	**2.63%**	**23,975.3**	**622.8**	**2.60%**	**23,588.7**	**607.6**	**2.58%**
Bonds	6,262.1	142.7	2.28%	7,056.6	180.6	2.56%	8,656.2	226.3	2.61%
Derivatives	1,663.9	212.2		1,587.6	247.8		1,537.8	256.0	
Total Interest Earning Assets	**33,427.7**	**1,024.4**	**3.06%**	**32,619.5**	**1,051.3**	**3.22%**	**33,782.7**	**1,089.9**	**3.23%**
Total Non-Interest Earning Assets[2]	**2,011.0**			**1,815.9**			**1,447.2**		
TOTAL ASSETS	**35,438.7**	**1,024.4**	**2.89%**	**34,435.5**	**1,051.3**	**3.05%**	**35,229.8**	**1,089.9**	**3.09%**

1) Derivatives presented at average book value (fair value).
2) Includes cash reserves (from the National Bank, in ATMs, etc.).

Source: Company information.

11.1.2 Average Balance Sheet and Interest Expense

Monthly averages	2016			2015			2014		
(in € million)	Average Book Value	Interest Expense	Average Yield	Average Book Value	Interest Expense	Average Yield	Average Book Value	Interest Expense	Average Yield
LIABILITIES									
Customer Deposits	22,341.3	61.1	0.27%	21,003.4	78.9	0.38%	21,194.4	130.0	0.61%
Deposits by Credit Institutions	2,395.6	0.6	0.03%	2,413.5	12.7	0.52%	2,198.6	12.5	0.57%
Debt Issues	4,988.7	118.3	2.37%	5,429.2	161.3	2.97%	6,518.7	175.7	2.70%
Derivatives[1]	1,083.5	117.7		1,529.4	86.4		1,273.8	106.2	
Repurchase Agreements	282.1	–		81.8	–		131.0	–	
TOTAL INTEREST BEARING LIABILITIES	**31,091.2**	**297.8**	**0.96%**	**30,457.3**	**339.2**	**1.11%**	**31,316.5**	**424.4**	**1.36%**
Non-Interest Bearing Liabilities	1,246.1			1,174.8			1,347.9		
TOTAL LIABILITIES	**32,337.3**	**297.8**	**0.92%**	**31,632.1**	**339.2**	**1.07%**	**32,664.4**	**424.4**	**1.30%**
Total Equity	3,101.3			2,803.3			2,565.5		
TOTAL LIABILITIES and EQUITY	**35,438.7**	**297.8**	**0.84%**	**34,435.5**	**339.2**	**0.99%**	**35,229.8**	**424.4**	**1.20%**
Net Interest Income		**730.0**			**722.3**			**675.3**	
Net Yield on Interest Earning Assets[2]			2.18%			2.21%			2.00%

1) Derivatives presented at average book value (fair value).
2) Net interest income divided by total interest earning assets.

Source: Company information.

11.1.3 Analysis of Changes in Interest Income and Interest Expense

The following table presents an analysis of changes in interest income as well as interest expense between the periods specified. In the following table, the changes in net interest income between periods have been reflected as attributed either to average balance or rate changes. For purposes of this table, volume related changes are calculated by multiplying the change in average balances between the two periods by the average interest rate of the older period, and the remaining net change in interest income is attributed to changes in interest rates.

	2016 over 2015			2015 over 2014		
(in € million)	**Net change**	**Volume related change**	**Rate related change**	**Net change**	**Volume related change**	**Rate related change**
INTEREST INCOME:						
Customer Loans	47.7	57.2	(9.5)	17.5	19.4	(1.9)
Loans to Credit Institutions	(0.9)	(0.8)	(0.1)	(2.2)	(0.8)	(1.4)
Bonds	(38.0)	(20.3)	(17.6)	(45.7)	(41.8)	(3.8)
Total Interest Earning Assets (excluding Derivatives)	**8.8**	**36.0**	**(27.2)**	**(30.4)**	**(23.2)**	**(7.1)**
Derivatives	(35.6)	12.1	(47.8)	(8.2)	8.5	(16.7)
TOTAL INTEREST INCOME:	**(26.8)**	**48.1**	**(75.0)**	**(38.6)**	**(14.7)**	**(23.9)**
INTEREST EXPENSE:						
Customer Deposits	(17.8)	5.0	(22.8)	(51.1)	(1.2)	(49.9)
Deposits by Credit Institutions	(12.0)	(0.1)	(11.9)	0.1	1.2	(1.1)
Debt Issues	(43.0)	(13.1)	(29.9)	(14.4)	(29.4)	15.0
Repurchase Agreements	–	–	–	–	–	–
Total Interest Bearing Liabilities (excluding Derivatives)	**(72.8)**	**(8.2)**	**(64.7)**	**(65.3)**	**(29.3)**	**(36.0)**
Derivatives	31.4	(22.2)	53.5	(19.9)	18.4	(38.3)
TOTAL INTEREST EXPENSE	**(41.5)**	**(30.3)**	**(11.1)**	**(85.2)**	**(10.9)**	**(74.3)**

11.2 Investment Portfolio

11.2.1 Book Value of Investment Portfolio

The book value of BAWAG Group's investment portfolio was as follows as of the dates specified.

	As of December 31,		
(in € million)	**2016**	**2015**	**2014**
BONDS[1]			
Credit Linked Notes	33.7	116.6	153.8
Non-Financial Institution Corporates	548.1	872.7	1,068.8
Financial Institutions	4,087.9	3,693.0	4,476.2
Sovereign Governments	1,408.4	1,286.2	1,690.0
Subordinated	152.6	109.2	–
CLO	–	–	671.7
TOTAL	**6,230.8**	**6,077.6**	**8,060.5**

1) There are no issuers for which the aggregated book value of the securities exceeds 10% of shareholders' equity.

Source: Company information.

11.2.2 Investment Maturity Analysis

The following table shows the book value and weighted average yield per maturity range for the investment portfolio as of December 31, 2016.

	As of December 31, 2016									
	In one year or less		After one year through five years		After five years through ten years		After ten years		Total	
(in € million)	Book value	Yield	Book value	Yield	Book value	Yield	Book value	Yield	Book value	Yield
BONDS										
Credit Linked Notes	0.0	0.0%	33.7	2.0%	0.0	0.0%	0.0	0.0%	33.7	2.04%
Non-Financial Institution Corporates	108.6	4.5%	305.8	5.1%	83.6	4.4%	50.1	6.2%	548.1	4.97%
Financial Institutions	613.2	3.2%	2,238.5	1.6%	1,225.2	1.1%	11.1	6.0%	4,087.9	1.69%
Sovereign Governments	90.4	2.6%	404.3	1.7%	690.8	1.1%	223.0	2.7%	1,408.4	1.63%
Subordinated	0.0	0.0%	88.5	7.8%	64.1	5.6%	0.0	0.0%	152.6	6.85%
TOTAL	**812.1**	**3.29%**	**3,070.8**	**2.14%**	**2,063.6**	**1.37%**	**284.2**	**3.45%**	**6,230.8**	**2.09%**

Source: Company information.

11.3 Loan Portfolio

11.3.1 Loan Portfolio by Industry Sector

The following table presents an analysis of BAWAG Group's loan portfolio by industry sector as of the dates specified.

	As of December 31,				
(in € million)	2016	2015	2014	2013	2012
CUSTOMER LOANS					
Retail Mortgage	9,860.6	7,235.9	4,598.0	4,234.9	3,984.8
Retail Unsecured	3,429.1	2,856.0	2,703.7	2,629.4	2,880.2
Retail Leasing	392.9	371.6	100.2	99.7	100.9
Corporate Mortgage	4,434.5	4,221.8	4,077.0	3,585.1	3,410.5
Corporate Unsecured	5,333.3	5,243.8	5,716.6	5,205.9	5,762.7
Corporate Leasing	787.9	889.0	547.5	665.6	872.1
Public Sector and Government	4,400.3	4,053.0	4,215.1	4,955.9	5,901.6
TOTAL CUSTOMER LOANS	**28,638.6**	**24,871.2**	**21,958.0**	**21,376.5**	**22,912.7**
LOANS TO CREDIT INSTITUTIONS					
Credit Institutions	549.6	685.8	768.0	2,076.1	3,456.2
Central Banks	1,085.0	1,025.0	750.0	1,715.0	1,730.0
TOTAL LOANS TO CREDIT INSTITUTIONS	**1,634.6**	**1,710.8**	**1,518.0**	**3,791.1**	**5,186.2**
TOTAL BOOK VALUE	**30,273.3**	**26,582.0**	**23,476.0**	**25,167.6**	**28,098.9**

Source: Company information

11.3.2 Loan Maturities and Changes in Interest Rates Analysis

The following table presents an analysis of maturities of BAWAG Group's loan portfolio as of December 31, 2016.

	As of December 31, 2016						
(in € million)	**Due in 3 months or less**	**Due after 3-6 months**	**Due after 6-12 months**	**Due after 1-5 years**	**Due after 5-10 years**	**Due after 10 years**	**Total**
CUSTOMER LOANS							
Retail Mortgage	110.3	85.8	170.3	734.8	3,215.4	5,543.9	9,860.6
Retail Unsecured	320.6	5.0	13.4	1,434.8	1,417.0	238.2	3,429.1
Retail Leasing	9.5	10.2	21.9	338.9	11.4	1.0	392.9
Corporate Mortgage	59.6	80.1	43.6	3,121.2	615.8	514.1	4,434.5
Corporate Unsecured	421.0	108.7	217.5	2,409.8	1,916.6	259.6	5,333.3
Corporate Leasing	29.5	33.2	46.2	384.0	170.2	124.8	787.9
Public Sector and Government	943.8	11.7	19.4	683.2	1,681.7	1,060.5	4,400.3
TOTAL CUSTOMER LOANS	**1,894.4**	**334.7**	**532.3**	**9,106.7**	**9,028.3**	**7,742.3**	**28,638.6**
LOANS TO CREDIT INSTITUTIONS							
Credit Institutions	417.7	0.0	0.0	7.5	8.4	116.0	549.6
Central Banks	1,085.0	0.0	0.0	0.0	0.0	0.0	1,085.0
TOTAL LOANS TO CREDIT INSTITUTIONS	**1,502.7**	**–**	**–**	**7.5**	**8.4**	**116.0**	**1,634.6**
TOTAL BOOK VALUE	**3,397.2**	**334.7**	**532.3**	**9,114.2**	**9,036.7**	**7,858.2**	**30,273.3**

Source: Company information.

The following table presents an analysis of the interest rates for loans in BAWAG Group's loan portfolio with residual maturities of more than one year from December 31, 2016.

(in € million)	**As of December 31, 2016 Book Value**
Customer loans	
Fixed interest rate	3,800.4
Variable interest rate	24,838.2
TOTAL	**28,638.6**
Loans to credit institutions	
Fixed interest rate	1,393.4
Variable interest rate	241.2
TOTAL	**1,634.6**
TOTAL LOANS	**30,273.3**

Source: Company information.

11.3.3 Risk Elements

The following section provides information about certain risk elements included in the loan portfolio intended to address the requirements of SEC Industry Guide 3 while also reflecting the classifications most relevant to how BAWAG Group evaluates the credit quality of its loan portfolio.

11.3.3.1 Non-accruals, Past Due and Restructured Loans

The following table presents the loans accounted for on a non-accrual basis and other NPLs (in or outside Austria) as of the dates specified. BAWAG Group's policy is to place loans on a non-accrual status when (1) the loan is in default (according to the CRR) and (2) either the loan is provisioned or legal actions have been initiated against the borrower. BAWAG Group defines "troubled debt restructurings" based on the standards outlined in Statement of Financial Accounting Standards No. 15 for defining restructured loans.

	As of December 31,				
(in € million)	**2016**	**2015**	**2014**	**2013**	**2012**
Loans accounted for on a non-accrual basis[1)]					
Customer Loans – Corporate Leasing	22.3	23.4	17.5	20.2	45.0
Customer Loans – Corporate Mortgage	9.9	22.5	18.7	31.9	37.0
Customer Loans – Corporate Unsecured	69.1	82.3	135.9	280.2	333.6
Customer Loans – Retail Leasing	7.9	8.1	3.1	3.9	3.6
Customer Loans – Retail Mortgage	196.6	147.5	105.5	115.3	158.2
Customer Loans – Retail Unsecured	102.1	133.4	158.0	143.6	362.3
Customer Loans – Public Sector Government	274.4	268.7	272.6	282.7	286.7
Loans to Credit Institutions	–	–	0.5	6.2	23.8
TOTAL	**682.2**	**685.9**	**712.0**	**884.1**	**1,250.1**
Accruing loans which are contractually past due 90 days or more[2)]					
Customer Loans – Corporate Leasing	18.7	2.1	–	–	–
Customer Loans – Corporate Mortgage	–	–	–	–	–
Customer Loans – Corporate Unsecured	–	–	0.1	0.2	1.3
Customer Loans – Retail Leasing	5.9	0.7	–	–	–
Customer Loans – Retail Mortgage	2.1	0.3	1.0	0.5	0.6
Customer Loans – Retail Unsecured	1.0	0.6	0.5	0.4	0.4
Customer Loans – Public Sector Government	–	–	–	–	–
Loans to Credit Institutions	–	–	–	–	–
TOTAL	**27.7**	**3.7**	**1.7**	**1.2**	**2.3**
Restructured Loans – Performing[3)]					
Customer Loans – Corporate Leasing	–	–	–	–	–
Customer Loans – Corporate Mortgage	0.7	0.4	–	–	–
Customer Loans – Corporate Unsecured	–	–	–	–	–
Customer Loans – Retail Leasing	–	–	–	–	–
Customer Loans – Retail Mortgage	15.5	0.4	–	–	–
Customer Loans – Retail Unsecured	9.5	5.1	2.4	–	–
Customer Loans – Public Sector Government	–	–	–	–	–
Loans to Credit Institutions	–	–	–	–	–
TOTAL	**25.6**	**6.0**	**2.4**	**–**	**–**
Restructured Loans – Defaulted[4)]					
Customer Loans – Corporate Leasing	–	–	–	–	–
Customer Loans – Corporate Mortgage	–	–	–	–	–
Customer Loans – Corporate Unsecured	0.2	0.0	–	–	–
Customer Loans – Retail Leasing	–	–	–	–	–
Customer Loans – Retail Mortgage	0.2	0.1	0.1	0.0	0.3
Customer Loans – Retail Unsecured	0.4	0.6	0.5	0.4	0.6
Customer Loans – Public Sector Government	–	–	–	–	–
Loans to Credit Institutions	–	–	–	–	–
TOTAL	**0.9**	**0.7**	**0.6**	**0.4**	**0.9**
TOTAL	**736.4**	**696.4**	**716.6**	**885.6**	**1,253.4**

1) Comprises defaulted loans (according to CRR), which are either provisioned for and/or where legal actions have been initiated against the borrower.

2) Comprises all defaulted loans which are not classified as non-accrued and are showing more than 90 days past due according to CRR.

3) Comprises all performing loans which have been restructured. There is no information to be disclosed for these restructured loans prior to 2014 because the official forbearance classification was only implemented in the years 2014–2015 within BAWAG Group.

4) Comprises all defaulted loans which have been restructured and are not classified as non-accrued and are not showing more than 90 days past due according to CRR.

Source: Company information.

11.3.3.2 Interest Income from Non-Accrual and Restructured Loans

The following table shows the approximate effect on interest revenue of non-accrual and restructured loans. It shows the gross interest income that would have been recorded during 2016, if those loans had been current in accordance with their original terms and had been outstanding throughout 2016 or since their origination or acquisition, if BAWAG Group only held them for part of 2016. It also shows the amount of interest income on those loans that was included in net income for 2016.

(in € million)	As of December 31, 2016
Gross amount of interest that would have been recorded at original rate	23.5
Less interest, net of reversals, recognized in interest revenue	1.7
Total Reduction of interest revenue	21.8

Source: Company information.

11.3.3.3 Potential Problem Loans

The following table presents the volume and number of customers of potential problem loans, grouped by industry. Potential problem loans are loans that are not classified as loans accounted for on a non-accrual basis, accruing loans which are contractually past due 90 days or restructured loans. These loans are considered potential problem loans as there is known information about possible credit problems causing BAWAG Group to have serious doubts as to the ability of the borrower to comply with the present loan repayment terms and which may result in classifying the loans as loans accounted for on a non-accrual basis, accruing loans which are contractually past due 90 days or restructured loans. BAWAG Group does not recognize any provisions with respect to individual loans as a result of their being classified as potential problem loans.

(in € million)	As of December 31, 2016 Volume
Customer Loans – Corporate Leasing	2.4
Customer Loans – Corporate Mortgage	38.7
Customer Loans – Corporate Unsecured	190.9
Total	**232.0**

Source: Company information.

11.3.3.4 Foreign Outstandings

The following table presents the cross-border outstandings to borrowers by "country of risk" where such outstandings exceed 1% of total assets. BAWAG Group defines "cross-border outstandings" as loans, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets with the country of risk outside of Austria. Outstandings comprise nominal, accrued interest, unamortized premium/discount and arrears. As of December 31, 2016, there were no outstandings that exceeded 1% of total assets in any country facing debt restructuring or liquidity problems at that time that BAWAG Group expected would materially impact the country's ability to service its private or public sector obligations.

	Aggregate amount of cross-border outstandings as of December 31,					Percentage of total assets as of December 31,
(in € million)	2016	2015	2014	2013	2012	2016
France	**2,195.5**	**904.0**	**1,156.3**	**1,893.6**	**1,521.5**	**5.52%**
Bonds	557.9	508.7	505.5	355.1	580.4	1.40%
Customer Loans – Corporate Leasing	–	–	–	–	–	–
Customer Loans – Corporate Mortgage	75.4	125.3	269.3	246.4	181.3	0.19%
Customer Loans – Corporate Unsecured	144.4	235.5	352.8	285.1	314.9	0.36%
Customer Loans – Public Sector – Government	–	–	–	–	–	–
Customer Loans – Retail Mortgage	869.2	0.4	–	–	–	2.19%
Customer Loans – Retail Unsecured	548.5	–	–	–	–	1.38%
Customer Loans – Retail Leasing	–	–	–	–	–	–
Loans to Credit Institutions	–	34.0	28.6	1,007.0	444.9	–

(in € million)	Aggregate amount of cross-border outstandings as of December 31, 2016	2015	2014	2013	2012	Percentage of total assets as of December 31, 2016
Germany	**1,143.5**	**1,290.6**	**1,756.3**	**1,681.2**	**2,593.1**	**2.88%**
Bonds	173.1	288.2	242.0	207.8	339.2	0.44%
Customer Loans – Corporate Leasing	2.0	3.9	6.2	11.6	19.0	0.01%
Customer Loans – Corporate Mortgage	243.2	179.6	537.0	443.2	329.0	0.61%
Customer Loans – Corporate Unsecured	465.5	505.2	655.7	679.3	747.8	1.17%
Customer Loans – Public Sector – Government	179.1	178.3	183.4	142.7	142.9	0.45%
Customer Loans – Retail Mortgage	16.0	16.9	17.7	19.5	21.0	0.04%
Customer Loans – Retail Unsecured	5.2	6.2	7.7	7.8	9.5	0.01%
Customer Loans – Retail Leasing	0.1	0.1	0.1	0.1	0.1	–
Loans to Credit Institutions	59.2	112.2	106.7	169.3	984.6	0.15%
Spain	**540.1**	**632.9**	**908.3**	**708.5**	**553.4**	**1.36%**
Bonds	359.1	379.2	507.1	487.5	332.2	0.90%
Customer Loans – Corporate Leasing	–	–	–	–	–	–
Customer Loans – Corporate Mortgage	125.7	211.5	106.5	154.1	178.0	0.32%
Customer Loans – Corporate Unsecured	54.7	41.9	291.4	66.3	42.9	0.14%
Customer Loans – Public Sector – Government	–	–	–	–	–	–
Customer Loans – Retail Mortgage	0.3	–	–	–	–	–
Customer Loans – Retail Unsecured	–	–	–	–	–	–
Customer Loans – Retail Leasing	–	–	–	–	–	–
Loans to Credit Institutions	0.3	0.3	3.2	0.5	0.4	–
United Kingdom	**3,936.0**	**4,505.6**	**1,887.4**	**1,872.8**	**2,277.3**	**9.90%**
Bonds	947.7	812.7	966.0	766.2	970.0	2.38%
Customer Loans – Corporate Leasing	–	–	–	–	–	–
Customer Loans – Corporate Mortgage	740.1	981.7	511.4	344.1	223.3	1.86%
Customer Loans – Corporate Unsecured	350.5	72.4	197.2	271.6	194.8	0.88%
Customer Loans – Public Sector – Government	–	–	–	–	–	–
Customer Loans – Retail Mortgage	1,731.9	2,355.2	2.0	2.2	2.3	4.36%
Customer Loans – Retail Unsecured	56.4	126.9	0.3	0.3	0.3	0.14%
Customer Loans – Retail Leasing	–	–	–	–	–	–
Loans to Credit Institutions	109.3	156.7	210.5	488.5	886.6	0.28%
Ireland	**1,016.2**	**891.8**	**1,098.4**	**303.0**	**267.0**	**2.56%**
Bonds	140.9	122.8	508.3	207.4	140.2	0.35%
Customer Loans – Corporate Leasing	–	–	–	–	–	–
Customer Loans – Corporate Mortgage	846.7	648.8	460.6	–	–	2.13%
Customer Loans – Corporate Unsecured	28.2	119.9	129.2	95.3	126.4	0.07%
Customer Loans – Public Sector – Government	–	–	–	–	–	–
Customer Loans – Retail Mortgage	0.4	0.4	0.4	0.4	0.4	–
Customer Loans – Retail Unsecured	–	–	–	–	–	–
Customer Loans – Retail Leasing	–	–	–	–	–	–
Loans to Credit Institutions	–	–	–	–	–	–
Netherlands	**676.8**	**805.9**	**1,196.8**	**945.7**	**630.2**	**1.70%**
Bonds	478.3	373.0	867.1	712.6	510.6	1.20%
Customer Loans – Corporate Leasing	–	–	–	–	–	–
Customer Loans – Corporate Mortgage	124.8	259.0	213.8	88.2	72.4	0.31%
Customer Loans – Corporate Unsecured	72.4	172.7	114.1	92.8	45.7	0.18%
Customer Loans – Public Sector – Government	–	–	–	–	–	–
Customer Loans – Retail Mortgage	0.9	0.8	0.8	0.8	1.1	–
Customer Loans – Retail Unsecured	0.3	0.3	0.3	0.3	0.3	–
Customer Loans – Leasing	–	–	–	–	–	–
Loans to Credit Institutions	–	–	0.7	51.0	–	–

(in € million)	Aggregate amount of cross-border outstandings as of December 31, 2016	2015	2014	2013	2012	Percentage of total assets as of December 31, 2016
United States	**3,192.3**	**2,922.3**	**2,301.7**	**1,164.0**	**1,463.0**	**8.03%**
Bonds	865.5	876.9	921.4	973.0	1,164.7	2.18%
Customer Loans – Corporate Leasing	–	–	–	–	–	–
Customer Loans – Corporate Mortgage	685.7	211.2	73.5	18.2	–	1.73%
Customer Loans – Corporate Unsecured	1,538.7	1,745.0	1,260.9	151.2	263.2	3.87%
Customer Loans – Public Sector – Government	–	–	–	–	–	–
Customer Loans – Retail Mortgage	0.2	0.2	0.3	0.3	0.4	–
Customer Loans – Retail Unsecured	–	–	–	–	–	–
Customer Loans – Leasing	–	–	–	–	–	–
Loans to Credit Institutions	102.2	89.1	45.5	21.4	34.8	0.26%

Source: Company information.

11.3.3.5 Additional Foreign Outstandings

The following table presents the cross-border outstandings to borrowers by "country of risk" where such outstandings exceed 0.75% but did not amount to 1% of total assets.

(in € million)	Aggregate amount of cross-border outstandings as of December 31, 2016	2015	2014	2013	2012	Percentage of total assets as of December 31, 2016
Belgium	308.4	383.5	220.7	246.6	357.5	0.78%
Italy	301.7	446.4	462.1	460.7	432.4	0.76%

Source: Company information.

11.3.3.6 Non-accruals and Other NPLs from Foreign Outstandings

The following table presents the level of foreign outstanding loans that are either accounted for on a non-accrual basis or 90 days past due but still accruing that were included in the total balance of non-accruals for BAWAG Group (see table "*11.3.3.1 Non-accruals, Past Due and Restructured Loans*" above).

(in € million)	As of December 31, 2016
France	**63.8**
Non-accrual	15.5
Accruing loans 90 days or more past due	–
Restructured Loans – Performing	23.0
Restructured Loans – Default	–
Potential Problem Loans	25.2
United States	**109.8**
Non-accrual	–
Accruing loans 90 days or more past due	–
Restructured Loans – Performing	–
Restructured Loans – Default	–
Potential Problem Loans	109.8
Germany	**3.3**
Non-accrual	3.3
Accruing loans 90 days or more past due	–
Restructured Loans – Performing	–
Restructured Loans – Default	–
Potential Problem Loans	–
United Kingdom	**77.9**
Non-accrual	61.3
Accruing loans 90 days or more past due	0.3
Restructured Loans – Performing	1.2
Restructured Loans – Default	–
Potential Problem Loans	15.2

Source: Company information.

11.3.3.7 Loan Concentrations

Loan concentrations occur when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. As of December 31, 2016 such loan concentrations in excess of 10% of BAWAG Group's total loans existed for loans granted to real estate borrowers as shown in the table below.

(in € million)	Book Value as of December 31, 2016	Percentage total of loans
Real Estate (incl. Portfolio / RE Loan-on-loan financing)		
Austria	1,803.8	6.30%
Ireland	846.7	2.96%
United States	737.1	2.57%
Great Britain	570.4	1.99%
Total Real Estate	**4,779.3**	**16.69%**

Source: Company information.

11.4 Summary of Loan Loss Experience

11.4.1 Analysis of the Allowance for Loan Losses

The following table presents a breakdown of the movements in BAWAG Group's allowances for losses on loans and advances for the periods specified. This information is audited except as noted below.

	For the Financial Year				
(in € million)	2016	2015	2014	2013	2012
Balance at the beginning of the period	**235**	**278**	**359**	**666**	**693**
Write-offs	(61)	(94)	(137)	(341)	(111)
Reversals	(36)	(39)	(29)	(61)	(55)
Net charge offs	**(97)**	**(133)**	**(166)**	**(402)**	**(166)**
Additions	67	90	85	95	139
Balance at the end of the period	**205**	**235**	**278**	**359**	**666**
Percentage of total net-charge-offs during the period to average loans outstanding during the period (unaudited)[1]	0.4%	0.5%	0.7%	1.6%	0.6%

1) Average loans outstanding represents the average balance calculated based upon month-end balances of loans and advances to other banks and customers, including fair value adjustments but not including unsettled trades.

Source: Company information.

11.4.2 Allocation of the Allowance for Losses on Loans and Advances

The following table presents BAWAG Group's allowance for losses on loans and advances by loan category and the proportion to its total loan portfolio as the period specified.

	As of December 31,									
	2016		2015		2014		2013		2012	
(in € million)	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans
Customer Loans										
Corporate – Real Estate	30	0.1%	43	0.2%	80	0.3%	171	0.7%	203	0.7%
Leasing	21	0.1%	21	0.1%	6	–	8	–	19	0.1%
Corporate Unsecured	11	–	3	–	4	–	11	–	44	0.2%
Public Sector – Government	–	–	–	–	–	–	–	–	1	0.0%
Retail – Mortgage	27	0.1%	31	0.1%	33	0.1%	33	0.1%	49	0.2%
Retail – Unsecured	62	0.2%	91	0.3%	114	0.5%	97	0.4%	301	1.1%
Loans To Credit Institutions										
Credit Institutions	–	–	–	–	1	–	5	–	17	0.1%
Total Allocated Provisions	**151**	**0.5%**	**189**	**0.7%**	**237**	**1.0%**	**326**	**1.3%**	**635**	**2.3%**
Portfolio risk provision (unallocated)	**54**	**0.2%**	**46**	**0.2%**	**41**	**0.2%**	**33**	**0.1%**	**31**	**0.1%**
Total Provisions	**205**	**0.7%**	**235**	**0.9%**	**278**	**1.2%**	**359**	**1.4%**	**666**	**2.4%**

Source: Company information.

11.5 Deposits

BAWAG Group partially funds itself through interest-earning deposits. The following tables set forth information regarding BAWAG Group's average deposit base for the periods specified. The average balances are calculated in general based upon month-end balances.

Current accounts include all deposits against which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal or telephone or preauthorized transfers for the purpose of making payments to third persons or others.

Saving accounts are accounts for retail customers for the purpose of accumulating funds over a period of time. With savings accounts, customers may make withdrawals, but do not have the flexibility of using checks to do so. Savings accounts may pay interest at variable rates or at fixed rates for fixed periods with penalties for early withdrawals.

Money market accounts are accounts offered to larger institutional customers for the purpose of short-term liquidity management. They typically have fixed terms running from one day to 90 days.

Term deposits are accounts offered to corporate clients for fixed terms, generally ranging from three to twelve months, with some term deposits as long as two years. Customers have no option to unilaterally withdraw funds from a term deposit before the end of the deposit period.

11.5.1 Deposits

Monthly averages	2016			2015			2014		
(in € million)	Average Book Value	Average Rate	% of Total	Average Book Value	Average Rate	% of Total	Average Book Value	Average Rate	% of Total
Customer Deposits									
Current Accounts	8,559.7	0.10%	35%	7,645.8	0.14%	33%	6,730.8	0.17%	29%
Money Market	621.7	1.10%	3%	151.3	5.48%	1%	177.4	4.36%	1%
Savings Accounts	12,815.5	0.35%	52%	12,741.1	0.46%	54%	13,835.3	0.78%	59%
Term Deposits	344.4	0.31%	1%	465.3	0.39%	2%	450.9	0.64%	2%
TOTAL CUSTOMER DEPOSITS	**22,341.3**	**0.27%**	**90%**	**21,003.4**	**0.38%**	**90%**	**21,194.4**	**0.61%**	**91%**
Credit Institution Deposits									
Current Accounts	624.2	0.97%	3%	699.7	1.07%	3%	743.5	1.19%	3%
Money Market	1,771.3	(0.31%)	7%	1,713.8	0.30%	7%	1,455.1	0.25%	6%
TOTAL CREDIT INSTITUTIONS DEPOSITS	**2,395.6**	**0.03%**	**10%**	**2,413.5**	**0.52%**	**10%**	**2,198.6**	**0.57%**	**9%**
TOTAL DEPOSITS	**24,736.9**	**0.25%**	**100%**	**23,416.9**	**0.39%**	**100%**	**23,393.0**	**0.61%**	**100%**

Source: Company information.

11.6 RoE and Return on Total Assets

	As of December 31,		
	2016	2015	2014[4]
Return on total assets[1]	1.22%	1.10%	0.88%
RoE[2]	15.9%	14.1%	13.0%
Total Dividends (in € million)	0	309	12
Total Dividends as Percentage of Net Income	0%	78%	4%
Equity to Assets Ratio[3]	8.1%	7.9%	6.8%

1) Equal to net income divided by average total assets.
2) Equal to net income divided by average equity.
3) Equal to average equity divided by average total assets.
4) Numbers were restated to provide better comparability with the numbers for the financial years 2016 and 2015. Net profit of € 308.2 million for BAWAG Group for the financial year 2014 excludes dividends paid to shareholders of non-controlling interests in the amount of € 6.8 million, which were included in that line item on the profit or loss statement in the Audited Consolidated Financial Statements as of and for the financial years 2015 and 2014.

Source: Company information.

12 MARKET AND COMPETITIVE ENVIRONMENT

12.1 Overview

BAWAG Group operates one of Austria's largest retail banks (source: Statista, Leading banks in Austria in 2016, by total assets, 2017) serving, as of December 31, 2016, over 2.2 million customers. BAWAG Group is a major player in the Austrian direct banking market through its easybank business and online and mobile platforms, and it also operates a centralized branch network with a focus on key urban growth areas of Austria, particularly in Vienna. In Vienna, the population increased by 11% from approximately 1.65 million in 2006 to approximately 1.84 million in 2016 and is expected to increase further by 7% to approximately 1.97 million until 2026 (source: Statistisches Jahrbuch der Stadt Wien (statistical yearbook of the City of Vienna), 2016). BAWAG Group intends to further expand its direct banking business into other Western markets, including Germany, where BAWAG Group plans to operate under the newly-launched direct banking brand Qlick in the fourth quarter 2017. BAWAG Group also distributes a wide range of insurance, investment products and other financial products offered by third-party partners and provides lending and other banking services to corporate and public customers. The geographic focus of the business is placed on the DACH region (comprising Austria, Germany and Switzerland), and in particular on BAWAG Group's home market of Austria and, to a lesser extent, Germany. However, BAWAG Group also has corporate and commercial real estate lending and portfolio financing activities in Western Europe outside the DACH region and in the United States. BAWAG Group manages the liquidity from its core funding franchise through an investment portfolio of financial securities, with no direct exposure to China, Russia, Hungary or Southeastern European countries. For more information on BAWAG Group's business activities, see "*13 Business*".

12.2 General Market Drivers

12.2.1 Macroeconomic Developments

As a result of the global financial crisis that began in 2007, international capital markets experienced a period of high volatility and reduced liquidity. This led to recessions in many European countries and around the world, weak economic growth and a considerable increase in insolvencies across a diverse range of business sectors. The ensuing sovereign debt crisis in Europe had a significant economic impact on the entire banking sector. These developments negatively affected the property market and led to reduced demand for commercial property, a contraction of the rental market and reduced activity in the property market measured by the number of transactions and transaction volumes.

A moderate economic rebound in major European economies since 2010, supported by government-backed programs and the intervention of the ECB in the financial markets, has laid the foundation for economic stabilization in Europe in recent years. Policy support has included, in particular, (1) ECB's Outright Monetary Transactions program, under which the ECB makes purchases (outright transactions) of certain bonds issued by eurozone member states, (2) low interest rates (managed through the ECB's refinancing rate adjustments) and (3) the ECB's expanded asset purchase program. The economic environment in many European countries has improved and continued to strengthen since 2015. Following a phase of consolidation and low growth rates during the years after the financial crisis, GDP growth has been relatively robust in the eurozone (2016: 1.7%; 2015: 2.0%) and the EU (2016: 2.0%; 2015: 2.4%) since 2015 (source: International Monetary Fund, World Economic Outlook Database, April 2017, Gross domestic product, constant prices). According to the International Monetary Fund, all EU member states' economies are expected to grow in 2017 and 2018 (source: International Monetary Fund, World Economic Outlook Database, April 2017, Gross domestic product, constant prices). GDP in the eurozone is expected to grow by 1.9% in 2017 and by 1.7% in 2018 according to the July 2017 World Economic Outlook Update by the International Monetary Fund. Moreover, employment is growing at a robust pace and unemployment continues to fall, although it remains above pre-crisis levels. According to International Monetary Fund, growth prospects for advanced economies stood at 2.0% in 2017 and 1.9% in 2018, although projections vary significantly by country. In particular, the growth forecast in the United States was recently revised downward given the uncertainty about the timing and nature of fiscal policy changes in the United States (source: International Monetary Fund, July 2017 World Economic Outlook Update). In contrast, growth projections for the eurozone were recently revised upward by the International Monetary Fund reflecting higher expectations for growth and high-frequency indicators indicating a stronger momentum in domestic demand. Growth in emerging markets and developing economies seems to have bottomed out with 4.1% in 2016 and is expected to gradually recover with 4.6% in 2017 and 4.8% in 2018 (source: International Monetary Fund, July 2017 World Economic Outlook Update). Overall, this could give a boost to European exports of both goods and services following a weak 2016.

Inflation in the eurozone was very low over the past two years, largely as a result of lower energy prices. However, more recently energy prices and inflation have begun to rise. According to the International Monetary Fund (source: International Monetary Fund, World Economic Outlook Database, April 2017, Inflation, average consumer prices) inflation is now expected to reach higher levels in 2017 and 2018, though still short of the target of "below, but close to 2% over the medium term" defined as price stability. In the eurozone, inflation is expected to increase from 0.2% in 2016 to 1.7% in 2017 and 1.5% in 2018 according to the International Monetary Fund. In the EU, inflation is forecast to rise from 0.2% in 2016 to 1.8% in 2017 and 1.7% in 2018, according to the same source.

The ECB Bank Lending Survey of July 2017 reported continued rising net demand across all loan categories in the eurozone as a whole. Net demand for housing loans was driven by the low general level of interest rates and continued favorable housing market prospects. The general level of interest rates, inventories and working capital also continued to have a positive impact on demand for loans to enterprises in the second quarter 2017. Net demand for consumer credit was driven by spending on durable goods, the low general level of interest rates and consumer confidence, according to the ECB Bank Lending Survey of July 2017. Eurozone banks continued to adjust to ongoing regulatory and supervisory changes in the first half 2017 by further strengthening their capital positions and reducing their risk-weighted assets. At the eurozone level, banks reported an easing impact of regulatory or supervisory action on credit standards and credit margins (source: ECB, press release of July 18, 2017, "Results of the July 2017 euro area bank lending survey").

BAWAG Group expects stable global growth rates with continued downside risk coming from adverse geopolitical developments. Furthermore, the economic recovery in parts of the eurozone is still fragile, although recent upticks in, e.g., consumer confidence in key economies such as Germany provide a positive directional backdrop to the overall economic outlook. As the effects of the financial crisis continue to fade, public opposition towards fiscal consolidation grows, leading to the risk that previously announced plans to strengthen and solidify the currency union may be watered down or not implemented within the planned timeframe.

In addition, the structure and development of the international financial markets, together with the regulatory framework, have an impact on the development of state economies in general as well as financial institutions, and these factors are particularly relevant for BAWAG Group's business relating to corporate and real estate financing as well as the public sectors. For example, the economic and political developments in the United States are relevant to BAWAG Group's corporate and commercial real estate business. In the United States, GDP growth in 2016 amounted to 1.6% and is expected to pick up with a year-on-year growth rate of 2.1% in 2017 and 2.1% in 2018 (source: International Monetary Fund, World Economic Outlook Update, July 2017).

12.2.2 Regulatory Regime and Changes Thereto

Governments, regulatory authorities and the EU, among others, have made and continue to make proposals to reform the regulatory framework applicable to financial institutions, including in the countries in which BAWAG Group is active. Many proposals have already been implemented, including the Capital Regulation Directive and the CRR, which provide, among other things, for yearly increases in additional capital buffers. Further significant changes are likely, including provisions for more stringent regulatory capital, liquidity standards, additional restrictions on compensation practices as well as recovery and resolution powers and conferral of supervisory and resolution powers on the EU. The likely effects of some of these laws, regulations and requirements, as well as their execution by the competent authorities remain uncertain as they are still being drafted and implemented. However, compliance with the continuously changing regulatory landscape may result in increasing administrative expenses for BAWAG Group and other financial institutions. For more information on the regulatory framework applicable to BAWAG Group and related risks, see "*3.2 Risks related to regulatory, legal and tax*" and "*17 Regulation and Supervision*".

The effects of Brexit on the economic development of the countries remaining in the EU remain uncertain, and may pose a threat to eurozone and EU growth. However, the Central Bank of Austria ("**OeNB**") estimates that the potential direct negative effects of Brexit on the Austrian economy are likely to be relatively small, given that the direct links between the Austrian and the British economies are relatively weak (for example, in terms of the share of external trade with the U.K.), although the amount of indirect effects cannot be adequately assessed at present (source: OeNB, Facts on Austria and its Banks, October 2016 (updated January 2017)). Because Austria is BAWAG Group's most important market, BAWAG Group expects effects of Brexit on economies other than Austria to be not significant for BAWAG Group as a whole.

12.3 Key Geographic Markets

BAWAG Group's home market and largest market is Austria, with approximately two-thirds of its loans to customers in Austria. The Austria-focused strategy is particularly based on a well-recognized brand across the country and a centralized branch network with a focus on key urban growth areas of Austria. In addition, through easybank, BAWAG Group is, in its own assessment, the leading direct bank in Austria in 2016 on the basis of lending and current accounts market share (source: FMDS). BAWAG Group is focused on serving retail, small business and corporate customers across the country.

BAWAG Group intends to use easybank as a platform to drive cross-border retail expansion into Western European markets with a primary focus on the DACH region. In January 2017, easybank obtained clearance to open a branch in Germany which is planned to operate under the newly launched brand Qlick in the fourth quarter 2017, a new direct banking brand in Germany, with an initial focus on consumer loans. In addition, BAWAG Group provides international corporate financing and real estate financing in certain Western developed countries, including Germany, the U.K., France and the United States.

The DACH region is a market with, in each case as of 2016, approximately 100 million inhabitants, approximately € 4 trillion GDP and GDP per capita of more than € 40,000, relatively low unemployment (below 5% on average) and projected GDP growth of 1-2% over the 2017-2018 period (source: International Monetary Fund, World Economic Outlook Database, April 2017). This region combines the commonality of culture and language with stable legal systems, which in BAWAG Group's opinion translates into a high-quality credit environment.

However, retail banks in the DACH region have generally low profitability, with an average RoE below 5% in 2016 (source: S&P Global Market Intelligence, RoE of banks with a balance sheet exceeding € 15 billion). The DACH retail banking sector is characterized by a significant need for digital investments with online banking penetration of approximately 50% in both Germany and Austria in 2016, as compared to 91%, 88% and 85% in Norway, Denmark and the Netherlands, respectively (source: Eurostat, ICT usage in households and by individual; no third-party data available for Switzerland).

The level of home ownership in the DACH region is relatively low, at approximately 50% in 2015 (56% in Austria, 52% in Germany and 43% in Switzerland; source: Eurostat, EU-SILC survey, Distribution of population by tenure status), while the consumer indebtedness level, measured by loans taken out by households as a percentage of GDP as of 2015, was approximately 65% in the entire DACH region (52% in Austria, 54% in Germany and 124% in Switzerland; source: Company calculations based on Eurostat data (Financial balance sheets, household loans).

12.3.1 Austria

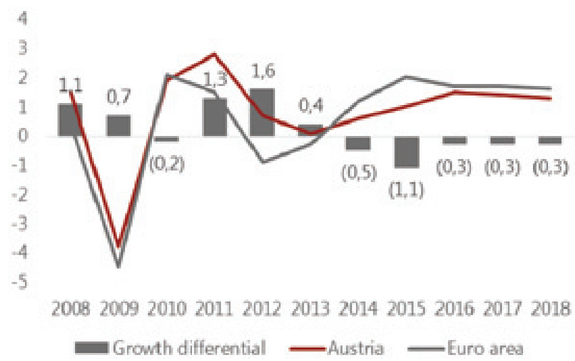
12.3.1.1 General Economic Indicators

Austria is a diversified and competitive economy. Its nominal GDP amounted to € 349.3 billion in 2016, after € 340.0 billion in 2015 (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)). Based on unemployment rate data from Eurostat for 2016, Austria (with a 6% rate) had the third lowest unemployment rate in the eurozone in 2016 (tied with the Netherlands), a rate which is almost half the eurozone average of 10% (source: Eurostat, total unemployment rate statistics). Further, Austria had the second lowest long-term unemployment rate in the eurozone (tied with Malta) in 2016 (source: Eurostat, long-term unemployment rate statistics; unemployment rate statistics – age group 15-24). Austria is also among the top-ranking countries worldwide by various measures of social stability (for example, in frequency of strikes) (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)).

Based on GDP per capita in purchasing power standards for 2016, Austria was the fourth richest country in the eurozone, according to Eurostat (GDP per capita at market prices). Austria outperformed the eurozone in terms of GDP growth in the last decade. Since 2014, however, its growth rates have lagged behind eurozone growth:

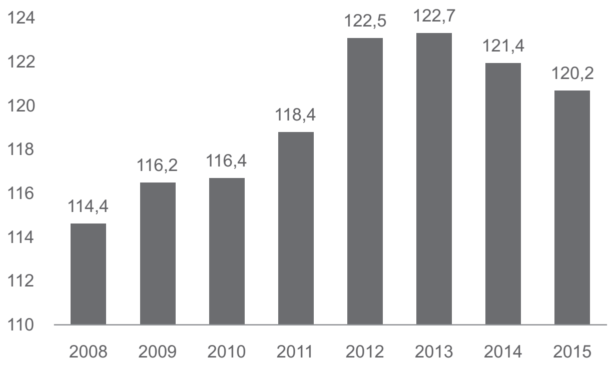
Growth differential between Austria and the Euro area

Real GDP; annual change in %;
Growth differential in percentage points



Welfare differential between Austria and the Euro area

Real GDP per capita at purchasing power standards:
Euro area = 100



Source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017).

According to the latest economic outlook of OeNB of June 2017, OeNB expects the Austrian economy to continue its recovery at a higher pace, with GDP growth accelerating to 2.2% in 2017 and 1.7% in 2018 (source: OeNB, Gesamtwirtschaftliche Prognose für Österreich 2017 bis 2019 (German language only), June 2017).

The level of domestic credit provided by Austria's financial sector to the private sector, such as through loans, as a percentage of GDP in 2016 stood at 133% as compared to 134% in Germany, an OECD average of 192% and 243% in the United States (source: World Bank, Domestic credit provided by financial sector (% of GDP)). The level of retail loans as a percentage of GDP in 2016 stood at 44% in Austria, which was below the eurozone average of 50%, as compared to 49% in Germany, 65% in the Netherlands and 78% in Sweden (source: ECB, MFI Balance Sheets). At the same time, the ratio of NPLs in Austria in 2016 was low at approximately 3% and, in the period from 2012 to 2016, has been consistently below the eurozone average of between 4.8% and 7.5% (Austria: between 2.8% and 3.5%), and is further supported by strong legal foundations facilitating comparatively high recoveries (source: World Bank, "Bank nonperforming loans to total gross loans (%)").

With 8.1% in 2016, Austria has a high savings ratio (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)) as well as the second highest percentage of savers worldwide (source: World Bank, Global Financial Inclusion Database, Series "Saved any money in the past year (% aged 15+)", most recent value). BAWAG Group believes that the low level of consumer indebtedness (52% in 2016 according to Company calculations based on Eurostat data) and the low level of home ownership (55% in 2016 according to Eurostat (EU-SILC survey, Distribution of population by tenure status)) – two relevant indicators for the retail banking market – provide significant potential for further organic growth.

Moreover, Austrian's growing population and the low penetration of the Austrian retail market in key product areas further underpin, in the opinion of BAWAG Group, the attractiveness of BAWAG Group's home market and its consumer lending market in particular. Austrian's overall population grew from 8.3 million in 2006 by 5% to 8.7 million in 2016, and a further growth by 7% to 9.4 million in 2026 is currently expected (source: Euromonitor International, "Total population: Euromonitor International from national statistics/UN"; World Bank, "Population total" (Austria)). Particularly in BAWAG Group's key market of Vienna, this growth has been even stronger with 11% between 2006 (approximately 1.65 million inhabitants) and 2016 (approximately 1.84 million inhabitants) and is expected to increase further by 7% until 2026 (approximately 1.97 million inhabitants) (source: Statistisches Jahrbuch der Stadt Wien (statistical yearbook of the City of Vienna), 2016). At the same time, penetration in key retail product segments is relatively low in the Austrian market:

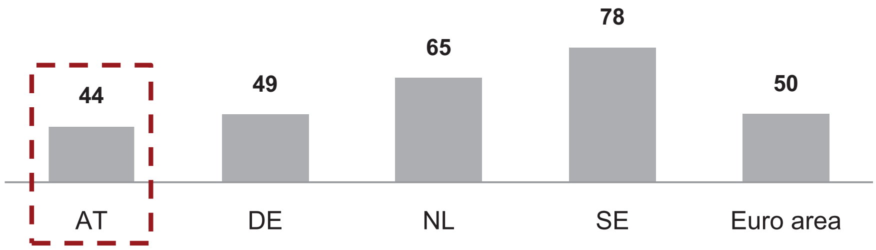
- retail loans as a percentage of GDP in 2016 stood at 44% in Austria compared to 50% in the eurozone (source: Company calculations based on ECB data (sectoral breakdown of MFI loans));
- the share of Austria's population above 15 years using credit cards in 2015 was only 30% compared to an average of 61% in Europe (source: Company calculations based on OeNB, Der Zahlungsverkehr in

Österreich, 2016 and Payments Cards & Mobile, Market Analysis, payment cards in Europe (based on 33 European countries));

- mutual fund holdings as a percentage of GDP in 2015 stood at 49% in Austria compared to 58% in Germany, 71% in France and 99% in the United States (source: DataMarket, "Mutual fund assets to GDP (%)");
- the annual insurance premium per capita in 2015 was € 2,082 in Austria compared to € 2,376 in Western Europe (source: Sigma Report, World Insurance in 2015 (amounts converted from $ into € with exchange rate as of December 31, 2015)).

Further, Austrian household lending as a percentage of GDP in 2016 was low in comparison to the levels of leverage in other European countries (source: Company calculations based on ECB data (sectoral breakdown of MFI loans)):

Retail loans as a % of GDP (2016)[1)]



1) Defined as the sum of loans by monetary and financial institutions to euro area resident households used to finance the purchase of real estate and for other purpose than housing or for unspecified purpose.

Source: Company calculations based on ECB data (sectoral breakdown of MFI loans).

Austria's sovereign debt has been granted top credit ratings by all major rating agencies (Aa1 by Moody's, and AA+ by S&P and Fitch; as of June 2016, January 2013 and February 2017, respectively) and is characterized by a high standard of living, stable housing market, a diversified export structure and a sustainable current account surplus (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)). BAWAG Group believes that all these factors provide a solid framework for the Austrian banking system.

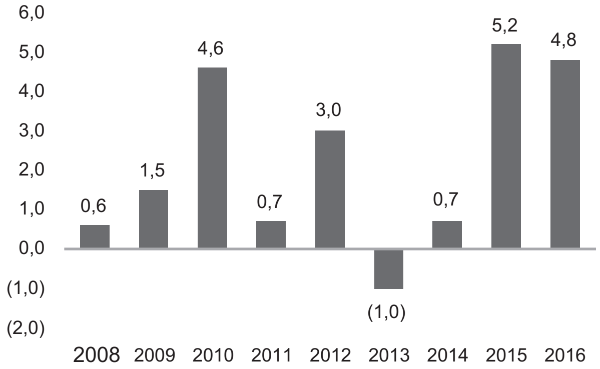
12.3.1.2 The Austrian Banking System

12.3.1.2.1 Overview

The Austrian banking system is a universal banking system. According to the Austrian Federal Ministry of Finance, the universal bank model offers significant potential for synergies and allows for a high degree of risk mitigation as well as for flexible adaptation to changes in the financial environment. For historical reasons, Austrian banks are organized in trade associations according to sectors. The sectorial structure is still in place although currently there are only few differences in the business models of individual banks.

In 2016, the Austrian banking system had total assets of € 946 billion, 672 credit institutions, € 80.7 billion in equity capital (based on CRD IV definitions from 2014) and € 193.3 billion in exposure to Central, Eastern and South Eastern Europe ("**CESEE**") (exposure of majority Austrian-owned banks, according to the BIS definition) (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017), consolidated figures). According to the same source, consolidated net profits of Austrian banks amounted to € 5.0 billion in 2016 in comparison to € 5.2 billion in 2015, which was the highest since 2008. According to OeNB, the slight reduction in net profits development was driven by lower net interest income – the most important revenue component of Austrian banks – which declined from € 18.3 billion in 2015 to € 14.7 in 2016 as well as reduced fee-based income (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)). In addition, OeNB observed an increase in other operating expenses and administrative expenses. These effects were only partly offset by the positive impact from a sharp drop in loan loss provisions, according to the same source. However, OeNB notes that this year-on-year comparison has a limited value due to the transfer of UniCredit Bank Austria AG's CESEE business to its Italian parent in October 2016. Adjusted for this effect, the aggregate net result after tax increased from 2015 to 2016 by 8% (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)). The following chart provides an overview of the development of Austrian bank's consolidated net profit in the period from 2008 to 2016 (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)).

Development of consolidated net profit of Austrian banks
€ billions



Source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017).

12.3.1.2.2 Developments and Key Trends

According to the OeNB (source: press release "Decline in risk provisioning supports banks' profits"; Presentation of the 33nd Financial Stability Report of the OeNB published on July 14, 2017, hereinafter referred as the "**OeNB FSR Press Release**"), the Austrian banking sector has become more resilient in recent years, with banks continuing their restructuring efforts in 2016 and posting substantial profits due to reduced risk provisioning despite weaker operating results and persistently high costs. According to the same source, for the time being, low interest rates and a high proportion of variable rate loans, support the debt-servicing capacity of Austrian enterprises and households, which however continue to face considerable interest rate risks. OeNB expects the low interest rate environment to remain a challenge for Austrian banks in the longer term, as their funding depends considerably on deposits, so that interest margins, which have traditionally been low in Austria, continue to be under pressure (source: OeNB, Facts on Austria and its Banks, April 2017). According to the same source, a dense network of branches, one of the key components of Austrian banks' business models, additionally incurs high costs that weigh on operational efficiency.

The capitalization of the Austrian banking sector has improved significantly since the onset of the financial crisis, through a combination of increased capital and reduced risk-weighted assets (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)). Particularly in 2016, according to OeNB, the Austrian banking system was able to clearly improve its capitalization as a consequence of profit retention and one-off effects from restructuring measures (source: OeNB FSR Press Release). In 2016, the Austrian banking system had a CET1 ratio and a tier 1 capital ratio of 14.9%, respectively, and a total capital adequacy ratio of 18.2% (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017)). However, although large Austrian banks succeeded in narrowing the gap between their capital levels and those of their European peers, the gap is, according to the same source, still there.

Loan volumes to both non-financial corporates and households increased in the last three years (source: OeNB, 33nd Financial Stability Report, June 2017), with the expansion of household loans mostly driven by housing loans. Even though Austrian household debt remained significantly below the eurozone average in the first three quarters of 2016 (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017), macroprudential supervisors have, as a result of the increase in housing loans, been monitoring mortgage lending more closely. In a risk warning published in September 2016, the European Systemic Risk Board ("**ESRB**") pointed to potential risks in connection with the Austrian residential real estate market in the medium term. In its own assessment, the OeNB takes a more differentiated approach in its risk assessment and is of the view that real estate prices in Austria are in line with economic fundamentals and that systemic risks arising from real estate financing remain limited (source: OeNB, Facts on Austria and its Banks, April 2017 (updated July 2017) and OeNB FSR Press Release). BAWAG Group believes the real estate price evolution in Austria as a whole as well as in Vienna, measured by € per square meter, to be healthy with significant increases particularly between 2008 and 2013 due to liquidity inflow into assets perceived as safe, while price inflation has tapered since 2013 (source: OeNB with Technische Universität Wien (Prof. Feilmayr)).

As regards recent trends, consumer payment transactions are increasingly shifting to digital solutions, e.g., most are done online or via self-service outlets. Based on payment transactions in the BAWAG P.S.K. Retail segment in 2016, 58% of payment transactions were done online (compared to 51% in 2013 (2014: 53%; 2015: 54%)), and 26% using self-service outlets (compared to 25% in 2013) (2014: 26%; 2015: 27%). At the same time, OTC frequency declined from 24% in 2013 to 17% in 2016 (2014: 21%; 2015: 19%). Further, in the first half 2017, 64% of BAWAG P.S.K. Retail's customers had no counter transaction at all, while in 2014 the share of customers with no counter transaction stood at just 55%. As a result of the digitalization trend, the role of branches, while still important, is changing: branches remain important for building client relationships (e.g., through advisory meetings) and acquiring new customers as well as for upsell. Thus, more advisory personnel are required (as opposed to staff carrying out transactional tasks).

While many of Austria's large traditional branch-based banks also participate in the digitalization trend and allow customers to carry out banking transactions online, direct banks such as easybank conduct their operations exclusively or almost exclusively outside traditional branches, mainly online, via phone, by e-mail or by mail. This allows for cost-efficient structures, because maintaining a broad branch network is costly, and as a result direct banks generally are able to offer more attractive terms than branch-based banks, for example higher interest rates for deposit products or lower interest rates on loans. For a direct bank without a customer service function in branches, other customer service and contact options (e.g., a telephone hotline, live-chat, by e-mail or a contact form) are particularly important. According to an article entitled "*Frischer Wind auf dem Markt für Direktbanken*" published in the Wiener Zeitung Online on March 31, 2017, direct banks operating in Austria have around 1.2 million customers (compared to approximately 19 million in Germany), and approximately 105,000 customers in Austria carry out securities transactions online (compared to 3.6 million in Germany). According to the article "*Direktbanken in Österreich*" published in the OeNB's statistics report for the third quarter 2014, direct banks represent significant competition for traditional banks with branch networks, especially as branch-based banks increasingly push customers to conduct their own banking transactions in a more autonomous fashion, in order to save personnel costs, among other reasons. The same source analyzed the development of direct banks from the end of 2006 until the end of 2013, which showed the growing importance of direct banks in Austria. This article also estimates that personnel costs account for 6% to 7% of a direct bank's total cost base and that, in direct banks' balance sheets, primarily liabilities owed to non-banks (for example, liabilities to private households, mainly in the form of deposits) play an important role. At the end of the 2013, liabilities to domestic non-banks and foreign customers accounted on aggregate for 91.1% of direct banks' balance sheet total liabilities (compared to 71.7% in the case of primary banks, i.e. regional banks with traditional branches). According to the same source, with respect to assets, direct banks mostly grant loans and advances to other credit institutions, both domestic and foreign (approximately 69.7% of direct banks' balance sheet total assets, on aggregate, at the end of 2013).

The digitalization trend also presents challenges, which include competition from non-banking industries, such as technology or service companies extending their value chain to banking services and financial technology start-ups that are offering innovative, technology-driven deviations from the traditional banking model, as well as fundamental changes in the attitudes of customers, who are making decisions much faster and have access to a broad range of offers (source: A.T. Kearney and Efma, "Banking in a Digital World", 2013, hereinafter the "**ATK/Efma Digital Banking Report**"). A survey carried out among bank customers and referred to in the ATK/Efma Digital Banking Report, for example, found that mobile app suites, electronic wallet solutions and personal finance tools were among the product and service enhancements most relevant to customers.

In addition, digitalization is beginning to play a more decisive role in banks' internal processes, although until now, the primary focus has been on the customer-facing side, and less on fundamental changes to banks' internal organizations or governance principles, including back offices' preparation for being the central customer interaction coordinator (source: ATK/Efma Digital Banking Report). Consolidated IT systems help reduce cost, but the report states that banks still have a long way to go to achieve robust straight-through processing and full vertical integration, which are likely to be important issues for banks in the next years.

12.3.1.3 Competitive Environment and Market Positions

According to the statistical data published by the OeNB, as of the end of 2016 there were overall 672 bank head offices and 3,926 branch offices in Austria across sectors (joint stock banks and private banks; savings banks; state mortgage banks; Raiffeisen credit cooperatives; Volksbank credit cooperatives; building and loan associations; special purpose banks and EU member state credit institutions).

However, the Austrian banking sector is overall fairly concentrated, with five large participants dominating the retail banking market. In addition to BAWAG Group, these participants are the Raiffeisen Banking Group (the domestic market leader, resulting from the merger, in March 2017, of Raiffeisen Bank International AG and its former majority owner Raiffeisen Zentralbank Österreich AG, and which operates under the name Raiffeisen Bank), the Erste Group Bank AG (which includes savings bank sector), the Volksbanken Group and UniCredit Bank Austria.

However, the market share of large Austrian banks varies regionally, with BAWAG Group focused in Vienna and the surrounding area. Austrian banks' branch network is comprehensive in comparison to the degree of branch coverage in other European countries. In 2016, Austria had approximately 4.5 branches per 10,000 residents, which is above the average for the eurozone (4.4 branches per 10,000 customers) and, in particular, significantly above the coverage in Germany (3.9 branches per 10,000 customers), Sweden (1.8 branches per 10,000 customers) and the Netherlands (1.0 branches per 10,000 customers) (source: Company calculation based on ECB data). Against this background, BAWAG Group expects that further consolidation will occur in Austria (as well as across the greater European banking landscape) in the coming years with the aim to realize efficiency gains.

A study entitled "*Direktbanken 2017 – Audit Konditionen und Servicequalität; 05/2017 – Zusammenfassung*" published by the Austrian Society of Consumer Studies (Österreichische Gesellschaft für Verbraucherstudien, "**ÖGVS**"), which analyzed 18 financial institutions in Austria offering online products and services, including six which the ÖGVS considers to be direct banks actually offering an alternative to branch-based banks. The study ranked BAWAG Group's easybank overall first, followed by the Dadat Bank, which started operating in March 2017 in Austria, and the third-placed ING-DiBa Austria. The overall ranking comprised an evaluation of the relevant banks' pricing, product range, customer service as well as transparency and customer convenience. Also in the past three editions of the ÖGVS study on direct banks in Austria, easybank achieved the top ranking (source: ÖGVS, Studie Direktbanken – Audit Konditionen und Servicequalität 04/2016, 03/2015 and 02/2014).

12.3.2 Germany

12.3.2.1 General Economic Indicators

According to the German Bundesbank, the German economy, in the second quarter 2017, is likely to have continued on the steep growth path seen in the fourth quarter 2016 and the first quarter 2017. At present, the upturn is being driven mainly by the buoyant industrial activity, which is not only receiving important stimuli from the domestic market, but also from abroad (source: Deutsche Bundesbank, Monthly Report June 2017 ("**Bundesbank MR June 2017**"; the following description of underlying trends is also taken from the Bundesbank MR June 2017). This is also reflected in the very optimistic assessment of the business situation in manufacturing, which, according to the Ifo Institute, in May climbed to its highest level since mid-2011, as well as in improved business and export expectations. Given the exceptionally robust inflow of new orders in the fourth quarter 2016 and the first quarter 2017, as well as the continued excellent sentiment in the sector, the level of activity in the construction sector is also likely to have increased further. Finally, the services sector is likely to have remained on an upward trajectory, as is suggested by the continued rise in employment. The very propitious labor market situation supports consumer sentiment and is one of the main reasons that private consumption maintains its role as a key cornerstone of the upturn.

12.3.2.2 The German Banking System: Structure, Developments and Key Trends

Universal banks offering a broad range of products and services around a core of traditional deposit-financed lending business are a hallmark of Germany's banking landscape. They exist alongside specialized banks, which are often affiliated with a universal bank and normally run a narrow business model focusing on selected transactions (among others, building and loan associations and mortgage banks) (source: Deutsche Bundesbank, Monthly Report April 2015, Structural developments in the German banking sector ("**Bundesbank MR April 2015**")). According to the same source, German banks can be broken down into the country's three-pillar structure, comprising (i) private commercial banks, (ii) public sector institutions and (iii) institutes in the cooperative sector (so-called "three-pillar system"; the following description is taken from the Bundesbank MR April 2015). For statistical reporting purposes, the banking system is divided into what are known as categories of banks, to which institutions are assigned depending on the nature of their asset and liability structure and their legal form. In this respect, the most important categories of banks in Germany are big banks, Landesbanken, regional institutions of credit cooperatives, regional banks and other commercial banks, credit cooperatives and savings banks. The big banks stand out in the category of private commercial banks; their business operations and funding activities are mostly strongly focused towards international operations and the capital markets, and they aim to make profits. Their activities include acting as the principal banking partners of Germany's major industrial enterprises. Many institutions in the category of regional banks and other commercial banks, on the other hand, tend to be smaller in size, with business models resembling those of savings banks and credit cooperatives. Operating more within a particular region, these institutions mainly focus on supplying credit to non-financial corporations and households, using deposits as their primary source of funding. Landesbanken, being the central institutions of savings banks, perform transactions which the savings banks themselves cannot, because they are either too small or operate only in a given region. They are therefore major participants in the wholesale banking and capital market businesses, where they compete with large private commercial banks. Regional institutions of credit cooperatives, meanwhile, play an active role in redistributing liquidity among the affiliated primary institutions, meaning they operate chiefly in the interbank and capital markets.

The business models of smaller regional institutions in Germany have not changed fundamentally over the last 50 years, according to the Bundesbank MR April 2015. Their customer-centric approach, coupled, in the case of the savings banks, with a commitment to serving the public good, make dense regional coverage a necessity, resulting in consistently high numbers of institutions and branches. More than three-quarters of credit institutions in Germany are savings banks or credit cooperatives, according to the same source, but their combined total assets make up less than a quarter of aggregate total assets in the German banking system. Consolidation gained traction in the 1990s, notably in the cooperative bank sector with its very large branch network, but lost momentum after the turn of the millennium. According to the Bundesbank MR April 2015, the aggregate number of institutions across all categories of banks shrank by more than half between 1990 and 2015. Advancing digitalization has eroded the importance of branches as a sales channel, while the pressure to reduce the cost base through economies of scale has fostered the spread of direct banking. In addition, many institutions are increasingly looking to enter the online payments business as well (source: Bundesbank MR April 2015).

By contrast, the business models of larger German banks have transformed over the past 20 years, according to the same source. Financial innovations, increased financial market integration and the deregulation of the financial markets enabled larger banks to expand their business franchise on an unprecedented scale. Market-based transactions opened the door to fresh sources of earnings and new forms of financing. The upturn in capital market financing was chiefly driven by several sets of financial market promotion legislation in Germany. One such change to the legal framework was the decision in 2001 to abolish state guarantees and guarantors' responsibility for ensuring their institutions' solvency in the regional commercial banks (*Landesbanken*) and in the savings bank sector, which entered into force in July 2005. The emergence of market-based transactions alongside traditional banking business and the process of consolidation caused individual banks to swell in size and fuelled concentration within the banking sector. The larger a bank's original size, the more strongly it expanded its business franchise and enlarged its balance sheet (source: Bundesbank MR April 2015). According to the same source, the reasons for this development were twofold: First, larger banks find it easier to boost their leverage through the capital markets. Second, they have greater scope for diversifying their activities than their smaller competitors, because they can harness economies of scale and scope for different business lines run side by side. This is the development that was seen at the national level, particularly among big banks and regional commercial banks but also at a number of larger institutions in the other categories of banks.

The funding mix of German banks has been subject to significant change since the financial crisis, although essential characteristics of the individual categories of banks have been retained (source: Bundesbank MR April 2015). According to the same source, larger banks, for instance, increasingly returned to traditional banking business, with a business model geared towards the money market and capital markets, probably due to restrained capital market activity primarily in the area of bank products (e.g., bank debt instruments, derivative instruments, securitizations) and weak earnings, but also as a result of new regulatory requirements. Several reforms to banking regulation that are currently being initiated serve the purpose of making the financial system more stable.

12.3.2.3 Competitive Environment

With its corporate and real estate financing business in Germany, and the planned start of direct banking services across the country, BAWAG Group competes and will compete with different types of competitors, including universal banks, commercial banks, other direct banks and savings banks. Some competitors have a global footprint, while others have a regional, product or niche client focus.

The German retail banking market remains highly fragmented and the competitive environment is influenced by the three-pillar system of private banks, public banks and cooperative banks. Competition has increased in recent years following some consolidation activity, particularly among regional commercial banks (*Landesbanken*) and private banks, as well as increased activity from foreign financial institutions. In addition, financial technology firms also compete with financial institutions in particular in the unregulated segments.

13 BUSINESS

13.1 Overview

BAWAG Group is one of Austria's largest banks, serving over 2.2 million customers. BAWAG Group offers a wide range of banking products and services, from retail banking to corporate lending and direct banking, and distributes a range of insurance, investment and other financial products offered by its third-party partners.

In the financial year ended December 31, 2016 and in the six-month period ended June 30, 2017, BAWAG Group generated a profit before tax of € 470 million and € 251 million, RoTE of 17.9% and 14.2%, RoTE (@12% CET1) of 19.2% and 16.9% and had a Cost-Income Ratio of 44.4% and 41.7%, respectively. BAWAG Group's financial strength is demonstrated by its Fully Loaded CET1 ratio of 15.5% and a Fully Loaded total capital ratio of 18.1% as of June 30, 2017.

Today, in its own assessment, BAWAG Group's efficiency (as measured by its Cost-Income Ratio) and profitability (as measured by its RoTE and RoE) metrics rank in the top 5% of ECB regulated banks with total assets exceeding € 15 billion across Europe. Following an upgrade of BAWAG P.S.K.'s rating by Moody's in April 2017 to "A2", taking BAWAG P.S.K.'s ratings from Moody's and Fitch ("A-") together, BAWAG P.S.K. currently holds the best ratings from Moody's and Fitch among BAWAG Group's Austrian competitors (see "*18.10 Ratings*"). BAWAG P.S.K. was awarded "Bank of the Year in Austria" by *The Banker* in 2015 and 2016 for its successful strategic transformation and *Euromoney's* "Best Bank in Austria" in 2016, which in the Company's view highlights BAWAG Group's ability to expand its core businesses, drive efficiency and simplify its business. In addition, through easybank, BAWAG Group is, in its own assessment, the leading direct bank in Austria in 2016 as measured by the number of accounts.

Bank Transformation

In 2012, BAWAG Group began executing a transformational initiative to improve and restructure its operations that would improve its financial strength and efficiency and profitability metrics. The key pillars of the transformation included (1) re-focusing on core geographic markets and products, (2) driving cost efficiency through disciplined cost management and simplified processes, and (3) deleveraging the balance sheet to increase capital and liquidity.

The success of the transformation is best demonstrated by the increase in BAWAG Group's profit before tax from € 23 million in 2012 to € 470 million in 2016, primarily resulting from stronger core revenues (which increased from € 777 million in 2012 to € 923 million in 2016) and reduced operating expenses (which decreased from € 648 million in 2012 to € 439 million in 2016). The increase in BAWAG Group's core revenues was largely driven by the improved performance of its retail and international businesses. As part of BAWAG Group's effort to reduce operating expenses, BAWAG Group implemented a new cost management approach, reduced FTEs, rationalized its business model and simplified its organizational structure. To facilitate these changes BAWAG Group invested approximately € 250 million in the restructuring and approximately € 200 million in information technology and other infrastructure, including a front-end-advisor tool (GATE), core banking system enhancements (alfa), risk systems and general branch optimization. Alongside these revenue- and cost-focused transformation measures, BAWAG Group also de-risked the balance sheet, which was achieved predominantly by reducing its exposure to CEE Countries, exiting proprietary trading, reducing the NPL volume and introducing improved performance management tools. This contributed, among other things, to a reduction of the NPL ratio from 3.5% in 2012 to 1.7% in 2016. Finally, particularly driven by the redemption of non-sustainable capital (€ 1.5 billion), organic capital accretion (€ 1.1 billion) and the reduction of risk-weighted assets, BAWAG Group increased its CET1 ratio (Fully Loaded) from 6.2% in 2012 to 13.6% in 2016.

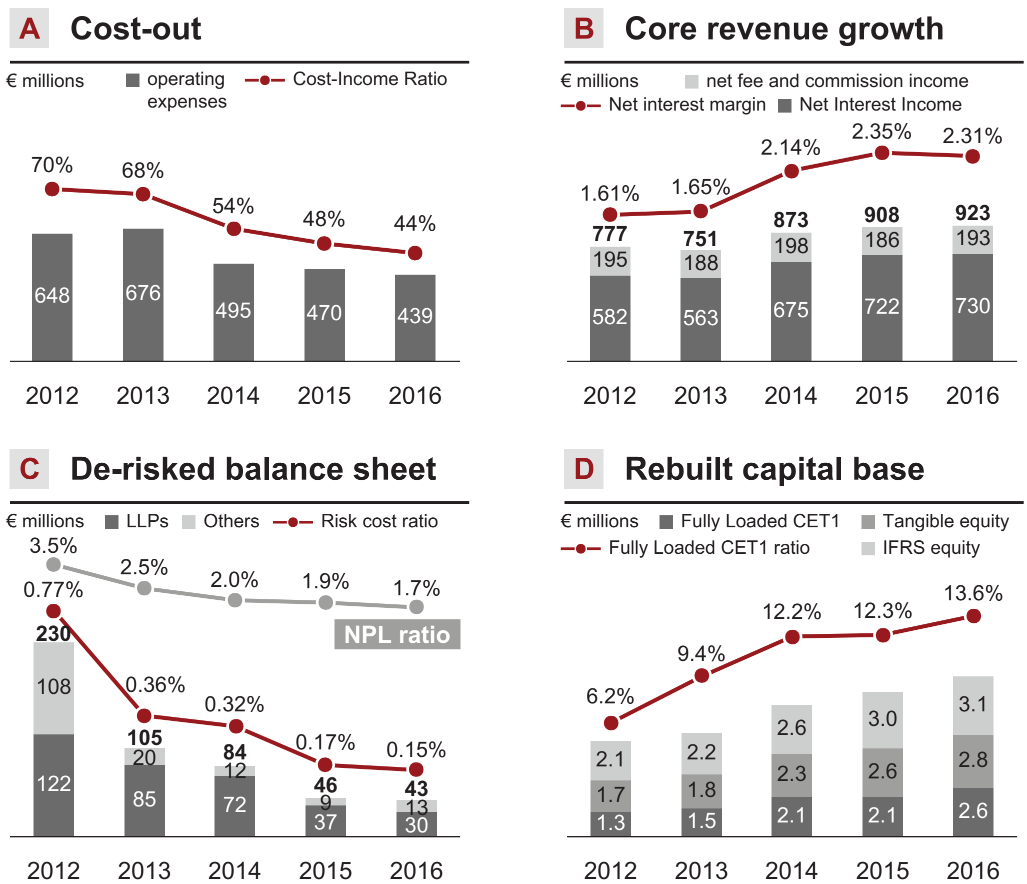
The following table shows an overview of BAWAG Group's successful transformation by certain key financial metrics as of and for the financial years 2012 and 2016:

	2012	2016
	(in € million, unless otherwise indicated)	
Profit before tax	**23**	**470**
Net profit	**42**	**484**
RoTE	2.9%	17.9%
RoE	2.1%	15.9%
Net Interest Margin	1.61%	2.31%
Risk cost ratio	0.77%	0.15%
Cost-Income Ratio	70%	44%
CET1 ratio (Fully Loaded)	**6.2%**	**13.6%**[1)]
Leverage ratio (Fully Loaded)	3.1%	6.5%
Balance Sheet Leverage	19x	13x
NPL ratio	3.5%	1.7%
RoTE (@12% CET1)	**1.4%**	**19.2%**[1)]

1) Number has been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

The following chart illustrates four key indicators of the transformation (cost reduction, core revenue growth, de-risking of the balance sheet and strengthening of the capital structure) on the basis of certain financial metrics as of and for the financial years 2012 through 2016:



Source: Company information.

Four Core Strategic Pillars

Building on the success of the transformational initiative introduced in 2012, BAWAG Group's strategy is centered around the following core strategic pillars: (1) Organic and inorganic growth in its core developed markets (currently two-thirds of BAWAG Group's loan book is located in Austria and the remaining third in Western Europe and the United States); (2) Making customers' lives easier by offering simple, transparent and easy-to-understand retail and corporate products; (3) Drive efficiency through a disciplined cost management approach and continued investments in technology; and (4) Safety and security by maintaining a low-risk, low-leverage and well-capitalized balance sheet.

Potential for Organic and Inorganic Growth in the DACH region

BAWAG Group believes there is potential for organic and inorganic growth in the DACH region (Austria, Germany and Switzerland), which BAWAG Group views as an opportunity to expand its business throughout the region with its customer-focused strategy that centers around profitability, efficiency and risk management. BAWAG Group's Austrian retail franchise is anchored by its approximately 17% market share in current accounts (source: FMDS). With its access to these current account customers, BAWAG Group intends to expand its other core retail offerings, such as consumer and auto loan and leasing products, with the goal of reaching a similar market share. Additionally, BAWAG Group believes there are further opportunities to expand its share of wallet across many of its 2.2 million customers by tailoring its product offerings and marketing to its more profitable customers. BAWAG Group seeks to grow its core retail market share by providing customers with 24/7 access to its products and services, leveraging the power of big data to better understand and serve its existing and new customers and continue strengthening its business partnerships.

Acquisitions

Given BAWAG Group's capital position and its management's track record of restructuring, BAWAG Group believes that it will be able to capitalize on attractive acquisition opportunities as the European banking sector continues to consolidate. BAWAG Group has completed three strategic bolt-on acquisitions since October 2015 focused on expanding its Austrian retail franchise in its core products of auto leasing, housing loans and building society products. All completed acquisitions have been earnings accretive since consummation and allow BAWAG Group's existing businesses to capitalize on synergies (both revenue and cost), customer acquisition, and cross-selling opportunities.

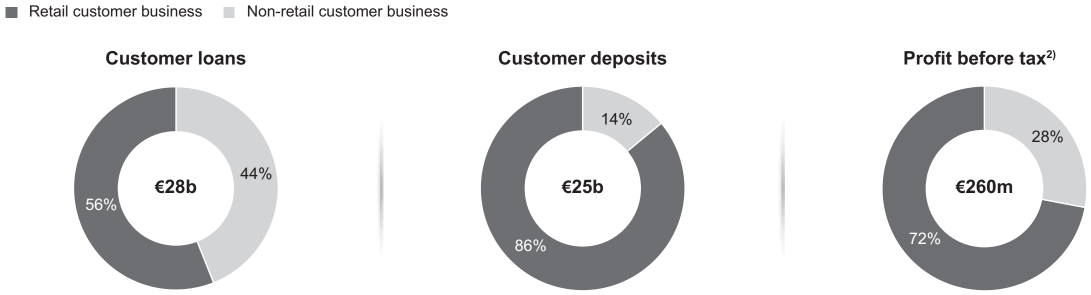
In addition, BAWAG Group recently closed the acquisition of PayLife, the card issuing business of SIX Payment Services Austria. Combined with its existing credit and prepaid card business, this acquisition makes BAWAG Group, in its own assessment, one of the largest card issuer in Austria by number of prepaid and credit cards and enlarges its customer base by creating further cross-selling opportunities to both consumers and businesses.

As part of its larger DACH regional strategy, BAWAG Group signed the acquisition of Südwestbank, based in Stuttgart, Germany, in July 2017. The transaction is expected to close in the fourth quarter 2017. Südwestbank has approximately € 7 billion assets and approximately 100,000 retail and business customers as of December 31, 2016. Focused in the economically strong southwestern Germany, the expertise, reputation and deep relationships with small and medium-sized businesses (*Mittelstand*) of Südwestbank make the bank an attractive partner to help BAWAG Group expand its footprint and customer base in Germany. BAWAG Group intends to use Südwestbank as its beachhead in the highly fragmented German banking sector for both organic and inorganic growth.

BAWAG Group's Customer Franchise

The below charts provide an overview of BAWAG Group's customer business as of and for the six-month period ended June 30, 2017 and 2016.

Key metrics of customer franchise (H1 '17)



Retail customer business[3]

€ millions	H1 '16	H1 '17	Delta
Core revenues	308.8	363.5	18%
Operating expenses	(151.8)	(150.2)	(1%)
Profit before tax	**124.6**	**187.2**	**50%**
Cost-income ratio	48.9%	41.2%	(7.7pts)
Pre-tax RoE[1]	**20.2%**	**24.4%**	**4.2pts**
NPL ratio	2.5%	2.3%	(0.2pts)

Non-retail customer business[4]

€ millions	H1 '16	H1 '17	Delta
Core revenues	128.2	117.1	(9%)
Operating expenses	(39.0)	(35.9)	(8%)
Profit before tax	**91.9**	**72.4**	**(21%)**
Cost-income ratio	30.8%	30.3%	(0.5pts)
Pre-tax RoE[1]	**18.6%**	**16.0%**	**(2.6pts)**
NPL ratio	0.8%	0.9%	0.1pts

1) Calculated at a level of 12% CET1 Ratio (Fully Loaded).
2) The business segments Treasury Services & Markets and Corporate Center contributed a profit before tax of € 27 million and minus € 36 million, respectively (not included in the chart).
3) BAWAG Group's retail customer business includes the BAWAG P.S.K. Retail segment and the easygroup segment. It includes private clients and small and medium enterprises, i.e., enterprises with a revenue of up to € 50 million or to which BAWAG Group has an exposure of up to € 1 million.
4) BAWAG Group's non-retail customer business includes both the DACH Corporates & Public Sector segment and the International Business segment. It includes public sector clients and enterprises with revenue exceeding € 50 million or to which BAWAG Group has an exposure of more than € 1 million.

Source: Company information.

13.2 Competitive Strengths

BAWAG Group believes that the following competitive strengths have been the primary drivers of its success in the past and will continue to set BAWAG Group apart from its competitors in the future:

- Leading bank in a safe-haven economy
- Successful transformation resulting in a strong financial profile
- Multi-channel distribution capability
- Experienced and proven management team
- Conservative risk management processes
- Track record of successfully sourcing and executing acquisitions

13.2.1 Leading Bank in a Safe-haven Economy

BAWAG Group's home market of Austria is a diversified and competitive safe-haven economy, with a high standard of living and a sound housing market. In addition, Austria's 2016 unemployment rate of approximately 6% is equal to approximately half the eurozone average and the third lowest in the whole of the eurozone. Based on gross domestic product per capita in purchasing power standards, it is the fourth richest EU member state. It has received strong sovereign credit ratings from the major credit rating agencies (Aa1 by Moody's, AA+ by S&P and Fitch).

BAWAG Group is, in its own assessment, a leading retail bank in Austria. Its roots are deeply steeped in Austrian history dating back to the founding of P.S.K. in 1883 and the Bawag trade union bank in 1922. *easybank*, founded in 1997, was, in its own assessment, the first Austrian digital bank when it was established as a bank by phone operation. Today, BAWAG Group operates one of Austria's largest retail banks with more than 2.2 million customers under the BAWAG P.S.K. and *easybank* brands. BAWAG Group maintains a well-recognized brand in Austria, as evidenced by the loyalty of its customer base, 60% of which have banked with BAWAG Group for at least ten years as of June 30, 2017.

13.2.2 Successful Transformation Resulting in a strong Financial Profile

In 2012, BAWAG Group began executing a transformational initiative to improve and restructure its operations that would improve its financial strength and efficiency and profitability metrics to, in its own assessment, industry-leading levels (as measured by its Cost-Income Ratio, RoTE and RoE) and hence the strong financial profile (i.e., in its own assessment top 5% of ECB regulated banks with total assets exceeding € 15 billion across Europe). The key pillars of the transformation included (1) re-focusing on core geographic markets and products, (2) driving cost efficiency through disciplined cost management and simplified processes, and (3) deleveraging the balance sheet to increase capital and liquidity.

The success of those initiatives have led to an increase in profit before tax from € 23 million in 2012 to € 470 million in 2016, resulting in a profit before tax increase of € 447 million and a compounded annual growth rate of 113%. At the same time BAWAG Group deleveraged the entire balance sheet by over 4% from € 41.5 billion to € 39.7 billion, focused on growing its customer loans from 54% to 72% of total assets, decommissioned non-sustainable capital / expensive wholesale funding, and significantly invested in building its core businesses. The wholesale transformation was based on operationalizing BAWAG Group's strategic pillars, which required a data-centric approach towards decision-making and understanding product, channel, and segment profitability. As a result, management introduced a new cost management approach and implemented a multi-year restructuring program focused on fixing BAWAG Group's structural cost imbalances. As part of this program, BAWAG Group invested approximately € 250 million in the restructuring and approximately € 200 million in information technology and other infrastructure in order to increase operational efficiency and thereby support the transformation process. This allowed BAWAG Group to reduce operating expenses by 32%, from € 648 million in 2012 to € 439 million in 2016, and reduce its Cost-Income Ratio by 26 points, from 70% to 44%. Simultaneously, BAWAG Group grew core revenues by 19%, growing from € 777 million to € 923 million, which translated into net-interest margin (NIM) expansion of 70 basis points, from 1.61% to 2.31%. This was the result of optimizing the liability structure, focusing on growing core products, deleveraging and repricing low-yielding assets and existing non-core businesses / assets. At the same time, BAWAG Group improved the overall asset quality and strength of its balance sheet by proactively reducing its exposure to CEE Countries, terminating its proprietary trading operations, selling its legacy structured credit portfolio, introducing more conservative underwriting guidelines and implementing automated standardized scorecards, selling non-core subsidiaries and participations and significantly reducing the number of legal entities of BAWAG Group. This contributed to, among other things, a reduction of BAWAG Group's NPLs by 53%, from € 1.5 billion in 2012 to € 0.7 billion in 2016, while reducing the NPL ratio from 3.5% to 1.7%. During this period, BAWAG Group also re-built its capital base by redeeming € 1.5 billion of non-sustainable capital (comprised of participation capital, hybrid capital instruments and minorities no longer eligible as regulatory capital under the CRR), accumulating € 1.1 billion organic capital accretion and reducing risk-weighted assets as BAWAG Group right-sized its business (mainly through deleveraging and exiting non-core businesses and assets). This enabled BAWAG Group to increase its CET1 capital ratio (on a fully-loaded basis) from 6.2% in 2012 to 13.6% in 2016.

Multiple awards, received from *The Banker* (Austrian Bank of the Year in 2015 & 2016), *Euromoney* (Austrian Bank of the Year 2016), and *Global Finance* (Austrian Bank of the Year 2017), are reflective of BAWAG Group's standing in Austria.

BAWAG Group successful transformation is also evidenced by the recent upgrade of BAWAG P.S.K.'s rating by Moody's in April 2017 to "A2" (with positive outlook) and the receipt of Fitch's "A-" rating in February 2017. Taking BAWAG P.S.K.'s ratings from Moody's and Fitch together, BAWAG P.S.K. currently holds the best ratings from Moody's and Fitch among BAWAG Group's Austrian competitors.

13.2.3 Multi-channel Distribution Capability

BAWAG P.S.K. operates a nationwide network of physical branches complemented by online and mobile platforms, which together provide an effective multi-channel distribution network to its customers. In addition, customers preferring online-only banking can find online only product-types at BAWAG P.S.K. or may seek to open an account with *easybank*, one of, in its own assessment, Austria's leading direct banks and forming part of *easygroup*.

BAWAG P.S.K.'s physical branches are currently operated under a cooperation agreement with Austrian Post (as described further under "*13.17.1 Cooperation Agreement with Austrian Post*" below), but it is intended that after 2020 a reduced core branch network will be operated by BAWAG P.S.K. alone in order to improve customer experience and efficiency (as described further under "*13.3.3 Focus on Efficiency and Operational Excellence*" below). BAWAG Group also continues to enhance its multi-channel offering by entering into collaboration or partnership agreements to improve the customer experience and to broaden its access to customers. In its core retail channel, BAWAG Group partnered with First Data to create a widely distributed ATM network which includes approximately 15% of total ATMs in Austria. This arrangement creates a flexible structure to provide access to BAWAG Group's customers in what it believes to be valued locations. In addition, BAWAG Group maintains an online mortgage processing platform that allows its distribution partners to directly connect to BAWAG Group's back office for straight through processing. This permits selected broker or distribution partners to reduce time to application and processing costs, and creates a scalable channel for selected third party distribution of key products.

BAWAG Group continually invests in technology and partnerships to improve customer experience. In cooperation with FinReach, BAWAG Group offers new customers online-based account migration services to facilitate the seamless migration of their accounts maintained with other banks to accounts opened with BAWAG Group. Through this collaboration, BAWAG Group has taken another important step to enhance its innovative digital platform and create substantial added value for its customers. In addition, in 2017, BAWAG Group was one of the first banks in Austria to offer a fully online identity verification process, enhancing its onboarding process and allowing customers to open accounts from a mobile device, thus eliminating the need to visit a branch. BAWAG Group is constantly evaluating potential further Fintech partnerships wherever this potentially enhances its digital products and creates substantial added value for its customers.

13.2.4 Experienced and Proven Management Team

BAWAG Group's experienced management team has a proven track record and is focused on delivering results that enhance its offering and improve the customer experience. The leadership team has proved itself in driving BAWAG Group's transformation over the past few years, including establishing its new culture that has taken root since 2012. The leadership team includes both international and local Austrian talent with Management Board members deeply rooted within BAWAG Group. For example, Anas Abuzaakouk, BAWAG Group AG's CEO, and Enver Sirucic, its CFO, have been with BAWAG P.S.K. for 5 and 11 years, respectively. Additionally, BAWAG Group AG's six Management Board members have 32 years cumulative service at BAWAG Group and an average of approximately 18 years experience in financial services. Furthermore, BAWAG Group's divisional management structure is largely based on internal promotions with a deep bench of senior leaders across the organization. This was a result of wholesale changes to BAWAG Group's culture, which strives to embrace the principles of a meritocracy. As a result, over 90% of BAWAG Group's current senior leadership has been replaced since 2012, with over 90% of new leaders being the result of internal promotions.

13.2.5 Conservative Risk Management Processes

BAWAG Group's risk management processes are defined by conservative underwriting standards, a focus on developed markets with well-established creditor rights and stable legal systems, low Balance Sheet Leverage of 11.9x as of June 30, 2017, capital levels well above minimum regulatory requirements, stable retail funding, and making lending decisions based on strict risk-adjusted returns criteria. Management is focused on ensuring a culture of pro-active risk management, avoiding blind volume targets, and staying disciplined within the confines of market developments.

As demonstrated by its low risk costs in 2016, BAWAG Group believes that such costs have normalized at predictable levels to reflect the stable nature of the businesses and markets. BAWAG Group intends to continue to take advantage of its predictable and low risk costs, with a dedicated focus on risk-adjusted returns and proactive risk management.

13.2.6 Track Record of Successfully Sourcing and Executing Acquisitions

BAWAG Group is continuously evaluating acquisition opportunities with a disciplined, rigorous and systematic internal due diligence process, and has a track record of successfully sourcing and subsequently integrating acquisitions. Since October 2015, BAWAG Group has successfully completed three strategic transactions as part of its inorganic growth strategy:

- Volksbank Leasing, the auto and equipment leasing arm of the Volksbanken Group. This acquisition significantly expanded BAWAG Group's existing auto and equipment leasing activities, making BAWAG Group the third largest auto lessor in the Austrian market and, if excluding the captive market leader Porsche Bank (Volkswagen's exclusive financial services provider), even the second largest auto lessor in the Austrian market (source: VÖL Leasing in Austria 2016);
- start:bausparkasse, a large Austrian savings and loan association and building society bank in Austria with 10% of market share (measured by deposits), providing BAWAG Group with access to approximately 500,000 customers and a significant presence in the building society sector; and
- IMMO-BANK, which expands BAWAG Group's reach with social housing associations and real estate companies.

All three acquisitions allowed BAWAG Group to grow its domestic retail franchise, fill product gaps and grow its share in core products, thereby increasing operating leverage and providing an opportunity for day one value accretion. BAWAG Group has fully integrated these acquisitions into its existing business, capitalizing on synergies (both revenue and cost), customer acquisition, and cross-selling opportunities.

Furthermore, BAWAG Group has recently completed the acquisition of PayLife, the card issuing business of SIX Payment Services Austria. The acquisition makes BAWAG Group, in its own assessment, one of the largest card issuers in Austria by number of credit and debit cards issued and will give BAWAG Group approximately 650,000 new customers. With the acquisition of PayLife, BAWAG Group expects to expand its balance sheet by approximately € 260 million and aims to increase its profits before tax by approximately € 12 million (on an annual basis) at an RoE of 20% or higher.

In addition, in the third quarter 2017, BAWAG Group signed the acquisition of Südwestbank, a German bank based in Stuttgart, Germany (expected to close in the fourth quarter 2017 or first quarter 2018). Südwestbank has approximately € 7 billion assets and approximately 100,000 retail and business customers as of December 31, 2016. Focused in the economically strong southwestern Germany, the expertise, reputation and deep relationships with small and medium-sized businesses (*Mittelstand*) of Südwestbank make the bank an attractive partner to help BAWAG Group expand its footprint and customer base in Germany. BAWAG Group intends that Südwestbank will serve as its beachhead in Germany for both organic and inorganic growth.

Following the closing of an acquisition, BAWAG Group runs a structured systematic post-acquisition process. Its integration approach is based on a structured roadmap focusing on, but not limited to, the following tasks: (i) the appointment of a new management team and upgrade/promotion of acquired company's talent base; (ii) an assessment of the effectiveness of the sales channels, client and product profitability; (iii) a transformation of the control, middle and back office functions involving, among other things, strengthening risk, finance, operations and IT oversight; (iv) technology investments and scaling up of infrastructure to enhance the digital footprint and automation; and (v) focusing on high asset quality, low leverage, stable risk and capital adequacy profile.

All of BAWAG Group's acquisitions have performed well since their integration into BAWAG Group's business operations. For example, the franchise acquired through Volksbank Leasing achieved more than 10% year-over-year new business volume growth in 2016. In terms of cost synergies, BAWAG Group eliminated € 7 million of operating expenses through a comprehensive efficiency transformation program and the combination with its existing leasing business. Business continues to perform well and is on track to achieve BAWAG Group's target returns.

start:bausparkasse had a double digit percentage growth in new loan volume originations in the six-month period ended June 30, 2017. BAWAG Group's focus is on the design of an integrated housing loan origination channel, the expansion of strategic partnerships and targeted offers of both fixed and variable rate products. In addition, BAWAG Group completed the demerger of IMMO-BANK into BAWAG P.S.K. as of June 30, 2017. A comprehensive cost restructuring program for both entities is ahead of plan and currently estimated to yield around € 15 million of pre-tax cost savings in 2017 and additionally around € 10 million in 2018. As with its leasing business, BAWAG Group believes to be on track to achieve its target returns.

BAWAG Group is constantly working on the further development of its approach to acquisitions and the integration of acquired businesses. In general, BAWAG Group believes that the banking industry is impacted by two macro trends: (1) developments in global and EU banking in a post-financial crisis world, with evolving views on globalization, and (2) the pivotal role of digitization in disrupting banking as well as other industries. BAWAG Group plans to capitalize on these trends by focusing on growth, in particular through M&A as well as technology and efficiency transformations, and to continue shaping its competitive edge in this respect.

13.3 Strategy

13.3.1 Organic and Inorganic Growth in Core Markets

BAWAG Group's focus is growth in its home country of Austria and more broadly the DACH region, both organically and inorganically via acquisitions. It aims to grow its market share in core products in Austria, establish a meaningful presence in Germany and build a best-in-class customer franchise throughout the DACH region.

Capitalizing on long-standing customer relationships in Austria

BAWAG Group's strategy for Austria is based on several key pillars, including integrated branch and digital platforms, an efficient customer-focused organization and its direct banking subsidiary easybank. BAWAG Group's branch network, particularly in key urban growth areas of Austria, tailors advisory services to customers seeking financial planning and product advice. Its long-standing customer relationships in Austria are important platforms for its cross-selling activities and to attracting new customers. In addition, BAWAG Group plans to further consolidate its organizational structure in order to continue to improve its customer service across Austria. In order to target the growing number of potential customers who do not require full access to the services provided in its branches, BAWAG Group relies on its direct banking subsidiary, easybank, which attracts a customer base which is largely complementary to the customer base of its BAWAG P.S.K. Retail segment.

Expanding into Western European Markets, with a primary focus on the DACH region

Furthermore, BAWAG Group intends to use easybank as the platform to drive cross-border retail expansion into Western European markets, with a primary focus on the DACH region. The DACH region is a third of the size of the U.S. market in terms of population and has attractive features including:

- population of 100 million;
- annual GDP of € 4 trillion and GDP per capita of more than € 40,000;
- an average unemployment rate of less than 5%; and
- a projected GDP growth rate of 1-2% over the 2017-2018 period.

(Source: International Monetary Fund, World Economic Outlook Database, April 2017)

The DACH region also benefits from a common culture and language, with a stable legal system and credit environment.

The region has low levels of consumer indebtedness, home ownership and digital penetration: consumer indebtedness, measured by loans taken out by households as a percentage of GDP as of 2015, stood at approximately 65% in the entire DACH region, (53% in Austria, 54% in Germany and 127% in Switzerland (source: Eurostat, Total financial assets and liabilities of households in EU countries, 2015, in % of GDP and Company calculations)). Further, home ownership stood, as of 2015, at approximately 50% in the DACH region (56% in Austria, 52% in Germany and 43% in Switzerland) (source: Eurostat, EU-SILC survey, Distribution of population by tenure status), and digital penetration, measured as a percentage of individuals using internet banking, stood, as of 2016, at 53% in both Austria and Germany in 2016 (source: Eurostat, ICT usage in households and by individual). On average, households in Austria and Germany are less indebted than households in other Western European countries, which BAWAG Group sees as an opportunity to grow its retail loan business while continuing to increase its market share. Lastly, the level of domestic credit to total GDP in Austria and Germany stand at 133% and 134% respectively. This is significantly below the United States (at 243%) and the average of OECD countries (192%), which BAWAG Group believes represents a significant opportunity for credit expansion within Austria and Germany.

Growth opportunities in the international corporate and real estate financing business

BAWAG Group's DACH retail and corporate lending business is complemented by its international corporate lending and international real estate financing business in Western Europe and the United States, which BAWAG Group aims to grow further. This strategy provides BAWAG Group with an avenue for earnings diversification and growth opportunities without the risks that could arise from expansion into countries lacking stable geopolitical and macroeconomic fundamentals.

Attractive opportunities for growing inorganically in the DACH region

BAWAG Group believes that there are attractive opportunities to grow inorganically in the DACH region. Currently, the DACH region has a highly fragmented banking landscape with a high share of savings and cooperative banks. BAWAG Group believes that the low profitability of DACH retail banks can be best addressed with technological investments, fixing structural cost imbalances and implementing a focused business strategy. BAWAG Group believes that its track record in improving cost efficiency through business simplification and technology investment makes it well positioned to make synergistic bank acquisitions in the DACH region.

M&A deal pipeline

BAWAG Group is continuously evaluating its M&A deal pipeline. It is currently assessing several bolt-on acquisition opportunities that would complement the Südwestbank product offering and business franchise, mirror BAWAG Group's transformation in Austria and enhance its footprint in the DACH region.

The strategic rationales for acquisition opportunities in its current deal pipeline include:

- Establish footprint in the building society (*Bausparkasse*) sector: Similar to the positive acquisition experience with start:bausparkasse in Austria, BAWAG Group believes that there are compelling opportunities in the German building society (*Bausparkasse*) sector. There are a number of challenges that the banks operating in this sector are currently facing, including structural cost imbalances and lack of focus on efficiency and technology, mismanagement of product offer and pricing including interest rate risk. Given the credit risk profile, widespread product distribution across German households and strong housing market performance, BAWAG Group believes this sector presents transformation opportunities.
- Digital / direct banking franchise expansion: Consistent with its focus on technology and the easybank expansion, BAWAG Group is looking into acquisition opportunities which would enable it to scale its digital / direct banking franchise and grow its customer base while ensuring disciplined pricing and profitable product penetration.
- Acquire new sales channels for retail, small- to medium-sized enterprises and corporates: BAWAG Group is in discussions with several well-known financial institutions in Germany, aiming to roll out sales partnerships and/or exploring additional acquisitions and market share growth.

BAWAG Group is currently diligencing and negotiating acquisitions with combined balance sheet assets of up to approximately € 5 billion and combined purchase prices of approximately € 100 million. It is seeing an increased inflow of acquisition opportunities, and anticipates pursuing potential additional acquisitions with combined balance sheet assets of up to approximately € 20 billion that meet BAWAG Group's rigorous diligence standards and are consistent with the strategic rationale outlined above. However, as of the date of this Prospectus, none of the acquisitions currently in BAWAG Group's deal pipeline have yet been agreed upon (other than the Südwestbank acquisition discussed above) and thus do not constitute fixed investments (see also "*10.8.7 Investments*").

BAWAG Group has a structured M&A roadmap approach and governance framework which enables its teams to underwrite several transactions simultaneously. In addition, there is a separate team focused exclusively on M&A and reporting directly to the CEO. BAWAG Group's M&A underwriting places a particular emphasis on purchase price discipline and achieving RoTE in the mid to high teens after implementation of an operational turnaround. Acquisition underwriting and post-acquisition integration work streams are fully interlinked and integrated into the BAWAG Group's operating methods, ensuring continuity as far as functional ownership, resourcing, project and transactional expertise are concerned.

13.3.2 Making Customers' Lives Easier

BAWAG Group is dedicated to offering customers the best and most convenient experience when conducting their banking through its digital and physical channels. Its digital initiatives aim at increasing convenience and satisfaction for its customers, including by providing clear, transparent and easy to understand banking products and services on a 24/7 basis.

Focus on product simplicity

BAWAG Group focuses on product simplicity and consistency of offerings, by providing clear, fair and transparent banking products and services across all of its distribution channels. This is assisted by big data and predictive analytics systems which enable BAWAG Group to personalize and customize product offerings. BAWAG Group continues to strengthen its partnerships and build new ones mainly in the digital area to continue to develop its retail franchise and enhance customer connectivity and its product offerings and services.

Focus on digital offerings

BAWAG Group aims to be a leader in digital offerings to its customers, enhancing its customers' experience with new e-banking and mobile features. Its new security application and one-touch security functions are designed to enable its customers to purchase products or perform transactions anytime and anywhere, safely and securely. BAWAG Group is targeting active online customers, who it believes to be more engaged and profitable than purely offline customers, as evidenced, on average, by 2.6 versus 2.9 products sold per customer, loan volumes of € 3,800 versus € 8,100 and core revenues of € 253 versus € 375 when comparing offline versus active online customers.

Improvement of customer experience

BAWAG Group has improved and streamlined its customer experience in the onboarding process, by partnering to acquire new technologies. Full online identification verification was first permitted by Austrian regulations in early 2017, and BAWAG Group was one of the first bank in Austria to make it available to its customers through a partnership with WebID. Customers can open a bank account in a fully-online process with a mobile device or in their homes, without need to visit a branch. In addition, in order to seamlessly shift bank accounts in an online process that takes just a few minutes, BAWAG Group has partnered with FinReach, to make customer onboarding a simple, seamless process.

BAWAG Group invests in all its distribution channels to offer its customers attractive savings, lending, leasing, insurance, building society and investment products and services wherever and whenever they want. In order to ensure that all of its customers benefit from its improving product offering, BAWAG Group offers upgrades to products previously offered by BAWAG Group.

Recently, BAWAG Group launched a new product family for its current accounts (*KontoBoxes*). The new generation of KontoBoxes offers customers a series of enhanced services, such as a Gold debit card with mobile phone-based payment technology ("Smartpay"), and a new loyalty program "DANKESCHÖN", which rewards customers for the use of products and payment cards. These value added services have driven increased interest in premium current account structures that provide greater functionality and enhanced customer experience across online and physical channels. BAWAG Group continues to provide a range of products for its customers' needs and phase out the legacy versions which are often at higher cost with lower functionality for the customer.

Digitization also serves to streamline BAWAG Group's relationships with distribution partners creating faster response time to end customers of BAWAG Group. BAWAG Group maintains a platform that allows for its chosen distribution partners and brokers to directly connect with its back end servicing operations, thereby creating a streamlined online application and approval process that it believes to be unique in Austria for mortgages. This straight through processing provides BAWAG Group's partners with a more efficient approval process and serves as an important channel for new customer acquisition, and will serve as BAWAG Group's origination channel with start:bausparkasse for building society products as well.

13.3.3 Focus on Efficiency and Operational Excellence

The overall banking industry across Europe is still facing several headwinds driven by moderate economic growth, a multi-year low-interest rate environment, continued pricing pressure, increased regulatory requirements and structurally inefficient business models. Additionally, as more and more companies from outside the traditional financial services industry (Fintechs and e-commerce platforms) are entering the market, taking market share or negatively impacting margins and attacking the traditional revenue streams of banks and financial institutions, the competitive pressure BAWAG Group is confronted with continues to increase.

BAWAG Group is convinced that in this challenging environment, banks have to change their overall business models and cost structure to be more efficient in their operations. Over the counter transactional needs are much reduced, as customers expect to conduct simple transactions at ATMs and digitally. In addition, the need for physical proximity to the customer through disbursed branch coverage is becoming less relevant as customers interface with their financial accounts primarily through mobile or other online solutions. Customers continue to value financial advice and simplification. BAWAG Group has anticipated this challenge and is addressing it by focusing on optimizing processes and driving operational excellence and technological innovation. BAWAG Group plans to consolidate its branch network further and continues to invest in its branches, employees and digital capabilities, in order to create advisory-focused branches. This requires a concentration of resources into fewer, larger and financial service focused branches with an integrated digital customer experience, resulting in better advisory experience and enhanced customer relationships and services. As part of this vision, BAWAG Group believes it is critical that its current branch count be reduced and resources reallocated.

Intended termination of Cooperation Agreement with Austrian Post

Against this backdrop, BAWAG Group had approached Austrian Post to discuss amendments of the current cooperation (see "*13.17.1 Cooperation Agreement with Austrian Post*" below) and extend it beyond 2020 based on such amended terms, including the flexibility to adjust the number of branches and personnel to correspond to market conditions and customer demand, resulting in a considerable reduction of the corresponding costs. As it was not possible to agree on such amendments, and in order to achieve the aim to right-size the branch network of BAWAG P.S.K. to better serve its customers and improve efficiency, BAWAG P.S.K. intends to give notice to Austrian Post prior to December 31, 2017 to terminate the cooperation agreement. Pursuant to the cooperation agreement, the termination will become effective on January 1, 2021 (unless the parties agree on an earlier termination). Until then, both parties continue to be bound by the cooperation agreement and BAWAG P.S.K. will have unrestricted access to the branches owned or leased by Austrian Post (currently, 74 branches are owned or leased by BAWAG P.S.K. and 359 branches are owned or leased by Austrian Post). The financial services activities in all branches are managed by BAWAG P.S.K. The customer information is stored in BAWAG P.S.K. systems and all marketing and customer communications are the responsibility of BAWAG P.S.K.

For 2016, in the current cooperation, Austrian Post has invoiced a total of approximately € 57 million, including approximately € 10 million for rent of shared branches, approximately € 24 million for the provision of more than 300 advisors employed by Austrian Post and approximately € 23 million for counter transaction services provided in branches. There are provisions for minimum number of branches and advisors as required by the cooperation. By moving to a more focused standalone network, BAWAG P.S.K. avoids such minimums and can be more agile by adapting its resources to customer demand for transactions and advisory services. BAWAG P.S.K. estimates that a standalone network would allow it to reduce the costs that are currently paid to Austrian Post by up to 50% and help to achieve a target Cost-Income ratio of lower than 42% for the BAWAG P.S.K. retail segment over the medium term.

BAWAG Group remains open to a holistic restructuring of the Austrian Post cooperation arrangement, and will continue to pursue a mutually satisfactory solution with Austrian Post that provides for branch consolidations, significant cost reductions and services based on market rates prior to 2020 and for any extended period of the cooperation.

In the event of a termination, beyond 2020 BAWAG P.S.K. would pursue a preferred standalone strategy that significantly improves financial performance through efficiencies currently unattainable under the current cooperation, as well as to enhance the customer experience of banking in its branches. The majority of the 74 branches currently owned or leased by BAWAG P.S.K. are located in what BAWAG P.S.K. believes to be attractive areas with high customer frequency and market potential. In order to improve the customer experience and to maintain optimal nationwide coverage beyond the end of the Austrian Post cooperation agreement as of the beginning of 2021, BAWAG P.S.K. plans to add approximately 25 new branches to partially replace the postal locations owned or leased by Austrian Post that BAWAG P.S.K. currently shares. This will be at a substantially lower cost, with enhanced financial services quality and control, than under the existing cooperation agreement.

The 100 core branch target network will utilize BAWAG Group's distribution network of self-service machines and ATMs and allow for the reduction of service branches providing counter transactions for which customer frequency has been highly curtailed.

BAWAG Group's standalone branch network will then be appropriated sized and positioned based on customer behavior, market potential and efficiency. In addition, BAWAG P.S.K. would hire additional advisory resources to partially replace the more than 300 Austrian Post-provided advisors (of approximately 1,000 total advisors currently, including employed resources), which come at a significant cost due to minimum levels of required staffing. BAWAG P.S.K. expects higher levels of productivity by these consolidation actions, with greater flexibility not afforded in the current cooperation agreement.

The result would be an efficient, digitally enabled and appropriately sized branch distribution channel tailored to communities and customer demand. In the envisioned network, BAWAG P.S.K. believes that more than 75% of its new business activity and approximately 80% of its current portfolio revenue is maintained, while approximately 75% of customers have minimal disruption (due to geographical reach), and its national footprint is preserved. BAWAG P.S.K. believes that it should achieve retention rates of its customers in line with historical branch consolidations of greater than 95%. In addition, by consolidating its best advisors and branch management in better equipped branch structures tailored to seamless advisory services, the customer experience is enhanced. BAWAG Group is prepared to execute this vision as its cooperation with Austrian Post terminates, and expects realization of the cost savings through this transformation as the cooperation winds down through 2020. BAWAG Group targets a Cost-Income Ratio below 42% for BAWAG P.S.K. Retail in the mid-term as its standalone branch network is realized.

Key elements of the efficiency approach

The key elements of BAWAG Group's process optimization and efficiency approach are to:

- automate and simplify processes as BAWAG Group transitions to a fully digital world, enhancing computing and analytical capabilities and improving the overall customer experience. Its multi-year technology IT roadmap allows BAWAG Group to continually upgrade its infrastructure and leverage new technologies as they are introduced to enhance the focus on customers;
- streamline and standardize products, services and processes, both online and in branches, which benefits customers, reduces costs and focuses BAWAG Group's branch network on providing value-added advisory services;

- continue to closely evaluate all of BAWAG Group's operations to identify those that could be more efficiently implemented through leveraging intragroup platforms or centralizing services and processes across BAWAG Group or through third-party partnerships; and
- maintain strict cost control throughout the organization.

13.3.4 Safe and Secure

BAWAG Group's management is committed to operating the business in a safe and secure way. A strong capital position, stable deposits and low and predictable risk costs across its products are fundamental cornerstones for the execution of its business strategy. BAWAG Group regularly engages in a detailed analysis of appropriate risk-adjusted returns on its capital utilization in each business unit and new product initiative.

BAWAG Group's capital base is already fully compliant with the CRR with no reliance on any transitional elements. A key element of its strategy is to retain strong CET1 and total capital positions and a conservative leverage ratio as BAWAG Group aims to maintain its position as one of the best capitalized banks in Austria and Europe measured by the Fully Loaded CET1 ratio of 15.5% as of June 30, 2017. This is complemented by a conservative risk weight density of 45.4% (defined as risk-weighted assets over total assets) as of June 30, 2017.

BAWAG Group targets a Fully Loaded CET1 ratio of at least 12% over time, which it believes to be a prudent level to manage through various economic cycles and to provide BAWAG Group with the flexibility to consistently support all of its growth initiatives, both organic as well as inorganic.

BAWAG Group capital base is complemented by a broad funding structure. Retail and corporate deposits historically have been the core part of its funding strategy and will continue to be the dominant source of funding for its balance sheet. BAWAG Group supplements its deposits with a diversified strategy of wholesale and own issue funding. It has issued senior unsecured bonds, subordinated bonds, covered bonds (i.e., security backed by cash flow from mortgages or public sector loans) and RMBS. For more detail on BAWAG Group's funding see "*10.2.9 Funding*", "*10.3.4 Funding Markets*" and "*10.8.3 Funding*".

BAWAG Group's long-term goal is to maintain a stable deposit base along with diversified wholesale and own issue funding. Furthermore, its ratio of secured funding to overall funding stood at 12% as of December 31, 2016, which is reflective of the low overall encumbrance of BAWAG Group's balance sheet assets.

BAWAG Group has a solid liquidity profile, with its liquidity coverage ratio standing at 138% at year-end 2016. Additionally, BAWAG Group is managed with low Balance Sheet Leverage, standing at 12.7x or 7.9x equity-to-total assets and a Fully Loaded regulatory leverage ratio of 6.5% as of year-end 2016.

13.4 Overview of Business Segments

As of the date of this Prospectus, BAWAG Group operates in the following six reportable segments:

- **BAWAG P.S.K. Retail**. As of June 30, 2017, the BAWAG P.S.K. Retail segment served 1.8 million retail and small business customers, originating € 698 million of new loans in the first half 2017, compared with € 560 million in the same period in 2016. The segment is operated through a centralized branch network and a digital platform supported by a customer care center. The segment's strategy is to offer simple, transparent and easy to understand products and services using a data-driven approach to product offering and customer relationships through branch, online and direct sales channels and capitalizing on BAWAG P.S.K.'s well-recognized national brand. This is evidenced by the loyalty of the segment's customer base: more than 60% of its customers have been with BAWAG P.S.K. for at least ten years, as of June 30, 2017. BAWAG Group has entered into strategic partnerships with Amundi, the largest European asset manager, and Generali, one of Europe's largest insurers, to broaden the product offering to the customers in the BAWAG P.S.K. Retail segment by including securities, investment products and insurance. In addition, the BAWAG P.S.K. Retail segment supports Austrian companies with an annual turnover of up to € 50 million and also includes social housing. As of June 30, 2017, the BAWAG P.S.K. retail segment provided comprehensive lending and payment services for over 36,000 small business customers.
- **easygroup**. As of June 30, 2017, easygroup is, in its own assessment, Austria's leading direct banking group, with over 70% current account market share and 55% lending market share among direct banks in Austria. Through online and mobile channels, easygroup offers a full banking product suite ranging from current accounts and savings products to credit cards, consumer loans, housing loans, auto leases and investment products. As of 2016, 48% of easybank customers use easybank as their principal or sole banking relationship, which BAWAG Group believes to be higher than at other direct bank

competitors in Austria. easygroup seeks to provide its customers with a one-stop solution for all their banking needs, with a core focus on making its customers' lives easier through digital solutions. As of June 30, 2017, easygroup served approximately 426,000 private and small business customers and borrowers. It comprises (i) *easybank*, the, in its own assessment, leading direct bank in Austria as measured by the number of accounts and (ii) *easyleasing*, the third-largest automobile lessor in Austria based on assets as of December 31, 2016 (source: VÖL Leasing in Austria 2016). New origination across the segment in the first half 2017 amounted to € 222 million, and € 242 million in the first half 2016. Furthermore, the recently completed acquisition of PayLife, the card issuing business of SIX Payment Services Austria, makes easygroup, in its own assessment, one of the largest card issuers in Austria by number of credit and debit cards issued. easygroup's objective is to continue to be, in its own assessment, a leading direct bank in Austria, while expanding into larger Western markets, particularly Germany and the U.K. easybank obtained regulatory clearance to open a branch in Germany, which is planned to begin operating under the newly-launched brand Qlick in the fourth quarter 2017. The pending acquisition of Südwestbank will further advance and accelerate easybank's expansion in Germany by providing easygroup with a German beachhead from which expand into this country (see "*14 Acquisition of Südwestbank*").

The easygroup segment has also expanded its balance sheet by opportunistically acquiring performing residential mortgage loan portfolios in France and the U.K. which contributed 41% of that segment's profit before tax in the financial year 2016. These acquisitions help to potentially advance easygroup's international growth strategy as they provide insights into product, market and customer behavior in those potential markets for expansion.

- **DACH Corporates & Public Sector**. This segment comprises BAWAG Group's corporate and public lending activities and other fee-driven financial services, with a focus on term loans, payment services products and security sales. The segment mainly services Austrian customers, as well as selected client relationships in neighboring countries (primarily Germany). The segment originated € 344 million and € 381 million in new loans in the first half 2016 and the first half 2017, respectively. As of June 30, 2017, the DACH Corporates & Public Sector segment served over 4,000 corporate and public sector customers, providing financing, investment and foreign exchange products as well as payment service products. In addition, the segment recently established an originate-to-sell platform in which it organizes public sector loans with a view to sell the investments to insurance companies.
- **International Business**. This segment includes BAWAG Group's international corporate lending and international real estate financing business outside the DACH region, with a focus on developed countries within Western Europe as well as the United States. The segment aims at international corporate, real estate and portfolio lending with a preference for (secured or unsecured) investment grade loans and senior secured non-investment grade loans. The international corporate lending business focuses primarily on lending to free cash flow generating companies with defensive business profiles and appropriate capital structures. The international real estate financing business focuses on senior loan positions in cash flow generating properties. The segment has a strong credit profile across international assets, and saw € 2.7 billion new originations in 2016 and € 758 million in originations in the first half 2017. BAWAG Group's International Business segment offers a competitive service in terms of response times, reliability and flexibility while maintaining premium pricing. It has limited exposure to land, development and construction financings.
- **Treasury Services & Markets**. BAWAG Group's Treasury Services & Markets segment acts as a service center for all BAWAG Group entities, customers and partners and includes any treasury activities associated with providing trading and investment services such as certain asset-liability management transactions (i.e., the management of interest rates, collateral, capital and FX), funding (secured and unsecured) and the investment results of BAWAG Group's portfolio of financial securities as well as liquidity management, including managing the liquidity reserve of BAWAG Group. The segment maintains a diversified book of investment grade credits with no direct exposure to China, Russia, Hungary, or South-Eastern European countries.
- **Corporate Center**. The Corporate Center contains central functions for BAWAG Group, including providing legal services and managing risks and group asset-liability management. It also includes unallocated expenses such as restructuring expenses, regulatory charges (except contributions to the deposit guarantee scheme) and corporate tax.

The following table provides an overview of core revenues and profit before tax generated by BAWAG Group's six reportable segments BAWAG P.S.K. Retail, easygroup, DACH Corporates & Public Sector, International Business, Treasury Services & Markets and Corporate Center (as of and for the financial year ended December 31, 2016):

	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Core revenues (in € million)	493	126	119	134	54	(4)	923
Core revenues %	53%	14%	13%	15%	6%	0%	100%
Profit before tax (in € million)	169	87	71	102	50	(9)	470
Profit before tax %	36%	18%	15%	22%	11%	(2)%	100%

Source: BAWAG Group's Financial Statements and Company information.

13.5 BAWAG P.S.K. Retail

13.5.1 Segment Overview

The BAWAG P.S.K. Retail segment includes savings, payment, card and lending activities, investment and insurance services for Austrian private customers, small business lending and social housing activities as well as building society savings and loans.

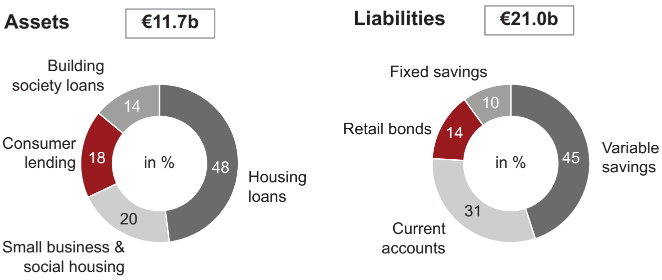
As of June 30, 2017, this segment serviced 1.8 million private and small business customers (approximately 0.5 million of which were added since 2014) through its centralized branch network as well as online and mobile sales channels supported by its customer care center. The BAWAG P.S.K. Retail segment also supports Austrian small businesses with annual turnover of up to € 50 million and also includes social housing. As of June 30, 2017, the segment provided lending and payment services for over 36,000 small business customers.

In the six-month period ended June 30, 2017, the BAWAG P.S.K. Retail segment originated new business of € 0.7 billion which represents a 37% increase compared to the same period in 2016. This new business comprised 38% of consumer loans and 58% housing loans. This resulted in an increase of BAWAG Group's market share in consumer loans in Austria by 180 basis points, representing a 12.4% market share, and a net asset growth of 6% compared with the same period in 2016. On an annualized basis, BAWAG Group expects the average management fee of the segment's current accounts to increase from € 31 in the financial year 2015 to € 84 in financial year 2017. During the six-month period ended June 30, 2017, the BAWAG P.S.K. Retail segment also continued to optimize its branch network, reducing it to approximately 280 full-service core branches and achieving continued efficiency through larger, more effective branches with better customer experience capabilities. This resulted in an annualized cost reduction of € 9 million in 2016 and improved the segment's Cost-Income Ratio by 7.6 percentage points to 47.7%. In the six-month period ended June 30, 2017, the segment's emphasis on digital services was evidenced by the fact that: 15% of consumer loan sales were initiated through direct channels; online payment transactions increased by 7% as compared to 2016; and the share of online transactions conducted using mobile applications increased by 55% as compared to 2016, while the number of over-the-counter transactions reduced by 13%.

In 2016, the BAWAG P.S.K. Retail segment generated core revenues of € 493.4 million and profit before tax of € 169.1 million at a Cost-Income Ratio of 55.2% representing 35.9% of BAWAG Group's profit before tax and reflecting an RoE of 19.2%.

As of December 31, 2016, the segment's assets totaled € 11.7 billion with an NPL ratio of 2.0% and customer deposits totaling € 18.1 billion. As of December 31, 2016, the segment's balance sheet comprised assets and liabilities as follows:

Balance sheet 2016



Source: BAWAG Group's Financial Statements and Company information.

The following table shows certain key financial metrics of the BAWAG P.S.K. Retail segment in the periods under review:

	As of and, where applicable, for the six-month periods ended June 30,		As of and, where applicable, for the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(in € million except for percentages)		(in € million except for percentages)		
Core revenues	279.8	244.0	493.4	467.3	514.4
Operating expenses . . .	(134.4)	(136.0)	(273.5)	(303.2)	(345.5)
Profit before tax	**116.5**	**80.1**	**169.1**	**131.5**	**131.2**
Cost-Income Ratio	47.7%	55.3%	55.2%	63.8%	66.8%
RoE	**23.7%**[1)]	**19.3%**[1)]	**19.2%**[1)]	**16.5%**[1)]	**19.0%**
Assets	11,632	9,256	11,659	9,178	9,201
Deposits (excl. retail bonds)	17,932	15,597	18,058	15,663	15,881
NPL ratio	2.1%	2.4%	2.0%	2.4%	2.9%

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation.. Please see "*9.4 Selected Other Financial Data*" further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

13.5.2 Key Strategic Objectives and Value Drivers

Through the BAWAG P.S.K. Retail segment, BAWAG Group is, in its own assessment, a leading multi-channel bank in Austria, with, in its own assessment, the largest centrally managed branch network. BAWAG Group is currently in the process of streamlining this branch network, and completed the first stage of the streamlining process in July 2016 with the reduction of the number of branches from approximately 480 full-service core branches to approximately 280 full-service core branches providing advisory services and from approximately 200 service branches to approximately 160 service branches in which no advisory services are provided. This newly optimized network provides more effective branches and an improved customer experience, while simultaneously reducing costs and increasing efficiency, as evidenced by the improvement in the Cost-Income Ratio of the BAWAG P.S.K. Retail segment from 63.8% in 2015 to 55.2% in 2016 and 47.7% for the six-month period ended June 30, 2017. From 2015 to 2016, the segment's revenue per customer improved by 5%. During this transformation of the branch network, the segment successfully retained more than 95% of its customers. Beginning in 2018, BAWAG Group intends to further optimize this network, targeting a reduction to approximately 100 branches to achieve further cost reductions by reducing transaction processing costs to market levels and eliminating unprofitable smaller branches, while maintaining the national footprint of the BAWAG P.S.K. Retail segment and ensuring limited customer disruption. With this more focused network, the BAWAG P.S.K. Retail segment expects to further enhance the customer experience and enable it to reduce its Cost-Income Ratio to below 42%. The nationwide branch network currently features a salesforce of approximately 1,000 employees and more than 1,200 self-service devices. This is combined with a digital platform offering a full suite of services to customers online, including mobile. The BAWAG P.S.K. Retail segment has seen 35% active user growth in mobile from December 2015 to June 2017. Transactions via mobile app recently exceeded 150,000 per month, with 62% of customers logging in via mobile devices. The segment's online services have approximately 370,000 active users per month, which represents a more than 5% increase since 2015, with transactions totaling more than 1.5 million per month. Furthermore, the website was directly visited by one million unique visitors per month. BAWAG Group's Austrian retail franchise is anchored by BAWAG P.S.K. Retail's 14% market share in current accounts. Leveraging this market share in current accounts, the segment's target is to achieve at least 14% market share in Austria across its core focus products including retail consumer loans, mortgage products, as well as investment and insurance offerings. With its access to these current account customers, BAWAG Group believes the segment to be well positioned to expand the penetration of its other core retail offerings, such as consumer and auto loan and leasing products, with the goal of reaching a similar market share.

The BAWAG P.S.K. Retail segment aims to drive value by focusing on efficiency and high-quality advisory services in its branches by implementing a differentiated branch structure. Low-margin transaction levels in branches continue to decline. In the first six month 2017, BAWAG P.S.K. Retail saw the number of over-the-counter transactions decrease by 13%, while the share of mobile transactions increased by 55%, in each case compared to the same period in the previous year. This change in customer behavior reduces the need for full-service branches and allows to focus branch resources on higher-margin, advisory offerings. The differentiated branch structure consolidates the segment's full service advisory teams in attractive locations, while maintaining service reach through a network of self-service devices and transaction points. Following implementation of the differentiated branch structure, the segment has experienced an increase in product sales per advisor, and an improvement in cost-to-income levels throughout its branch network. BAWAG Group expects these efficiency benefits to increase as it optimizes its branch footprint over the coming years.

The BAWAG P.S.K. Retail segment benefits from a loyal customer base. More than 60% of its customers have banked with BAWAG P.S.K. for at least ten years as of June 30, 2017. BAWAG Group believes there are extensive opportunities to cross-sell the segment's core products to primary current account holders, deepening the customer relationship using data analytics to provide the right product at the right time to its existing customers. The BAWAG P.S.K. Retail segment conducts more than one million advisory meetings per year as part of these cross-selling efforts which deepen the customer relationship. Further opportunity for continued customer engagement exists across the segment's product base. For example, as of June 30, 2017, only 1 in 10 current customers had a consumer credit with BAWAG Group and only 1 in 10 current customers had a securities account with BAWAG Group. With enhanced customer analytics, the BAWAG P.S.K. Retail segment is continually identifying customer financial needs to provide them with contextual offers at the time in which they can benefit from it. In addition, BAWAG P.S.K. Retail addresses its customers' desire for advisory services in managing their financial life with its centrally-managed advisory network, providing regular advisory meetings (*MEIN LEBEN JahresCheck*) to evaluate its customers' financial goals as well as products and services that to help them achieve those goals.

The strategy of the BAWAG P.S.K. Retail segment is to offer simple products through efficient distribution channels, ensuring a straightforward and efficient experience for its customers. BAWAG P.S.K. Retail has significantly reduced and simplified its current account, savings account and housing loan products while expanding its product offerings to include insurance, securities and investment products. In particular, customers are able to access its products through multiple complementary channels (whether online, direct or in branch). As part of the simplification of its product offering, BAWAG P.S.K. Retail has reduced the number of current account (*KontoBox*) products on offer from more than 50 prior to 2012 to just 12 in 2017, ensuring to provide straightforward products that cater directly to customers' needs.

This product strategy is complemented by a data-driven approach to offer targeted products and services to customers in context with their lives and financial needs at the right time. This data-driven approach relies on the long history BAWAG P.S.K. Retail has with most of its customers, paired with purchasing-probability and trigger-based models used to identify customers' needs. In this context BAWAG P.S.K. Retail has developed a new customer segmentation which combines behavioral insights with the revenue potential of customers. This allows BAWAG P.S.K. Retail to better target active customers, being 1.3 million customers who, as of December 31, 2016, among other things, had at least one active bank product, were private individuals with an identified active customer relationship and were not start:bausparkasse customers. On average, these 1.3 million active customers held 2.1 products. Through this customer categorization, BAWAG P.S.K. Retail aims to identify those customers with the highest purchase probabilities in order to increase the average number of products per active customer to 2.5 in the mid-term. Furthermore, the behavioral insights help to fine-tune BAWAG P.S.K. Retail's communication, channel and service approach for every customer group.

The BAWAG P.S.K. Retail segment focuses on growth in its core Austrian market, using its stable deposit base and growing consumer loan business. The segment's growth has been assisted by strategic partnerships which enhance the breadth of its product offerings as well as access to a broader customer base. Among others, partners include:

- Amundi, Europe's largest asset manager as a partner on fund sales (source: IPE Research, "TOP 400 asset managers", June 2017), with Amundi also providing distribution and training support to BAWAG P.S.K. Retail's financial advisers;
- First Data to provide a flexible partnering model for ATMs, giving BAWAG Group a market share of more than 15% in terms of installed ATMs in Austria (source: Company calculations based on industry data/ estimates);
- Generali relating to insurance products;
- Wüstenrot for the sale of building society savings and loans;
- Western Union, the global market leader in money transfers;
- VISA for the issuance of VPAY debit cards, giving the opportunity to drive payment innovation in Austria; and
- ARBÖ, the number two car association in Austria.

BAWAG Group is also actively evaluating a number of technology partnerships across the Fintech marketplace.

Finally, BAWAG Group continues to leverage its established relationships with affinity groups, such as trade unions, workers councils, workers council service (*Betriebsratsservice*) and the Association of Austrian Savers (*Verein Österreichischer Sparer*).

13.5.3 Key Retail Products

The key retail products of the BAWAG P.S.K. Retail segment are current accounts (*KontoBox)*, savings accounts (*SparBox)*, consumer loans (*KreditBox Schnell*), housing loans (*KreditBox Wohnen*), investment funds (*ErtragsBox*) offered in cooperation with Amundi and insurance products (*VorsorgeBox*) distributed by BAWAG P.S.K. Retail and issued by a joint venture company that is owned by BAWAG Group and the Generali Group.

The following table gives an overview of the key retail products of the BAWAG P.S.K. Retail segment:

Details	**KontoBoxes**	**SparBox**	**KreditBox Schnell**	**KreditBox Wohnen**	**ErtragsBox**	**VorsorgeBox**
Products	Current account packages from Small to XLarge	Variable-rate and fixed-rate savings products	Consumer loan with instant credit decision	Mortgage-backed loan product	Investment solutions offered in cooperation with Amundi	Life and non-life insurance products offered in cooperation with Generali Group
Description / Services	Bundles include debit and credit cards, eBanking	Fixed-term savings ranging from 6 to 120 months	Unsecured loans between €4k and €75k; term up to 10y	Secured loans between €50k and €1,000k	Investment funds with focus on balanced funds, life-cycle funds and Amundi-guaranteed notes	Life: focus on unit-linked products Non-life: focus on accident/ unemployment insurance

Source: Company information.

13.5.3.1 Current Accounts – KontoBox

BAWAG P.S.K. Retail's key fee-generating products include current accounts (*KontoBox*) which comprise standard current accounts (*KontoBoxes*), online-only current accounts (*Einfach Online Konto*) as well as free current accounts for young people aged 14 to 19 (*KontoBox B4-19*) and students up to the age of 27 years (*KontoBox Studenten*).

The standard current accounts (*KontoBoxes*) come in four variations: *KontoBox Small*, *KontoBox Medium*, *KontoBox Large* and *KontoBox XLarge*. Customers who maintain a *KontoBox Small*, *KontoBox Medium*, *KontoBox Large* or a *KontoBox XLarge* are charged a monthly service fee of € 4.90, € 6.90, € 9.90 or € 12.90, respectively. By opting for the higher monthly service fees of the more expensive accounts, customers are able to access a broader range and number of transactions (e.g., automated cash withdrawals or deposits) and services (e.g., number and service level of credit cards). For instance, the lowest-cost standard current account bundle offered (*KontoBox Small)* includes one automated transaction per month (e.g., automated cash withdrawals or deposits) with each subsequent automated transaction charged per transaction. Conversely, the most comprehensive standard current account bundles on offer (*KontoBox Large* and *KontoBox XLarge*) allow for an unlimited number of automated transactions at no extra charge. All customers who choose a standard current account (*KontoBox*) have full access to the services BAWAG P.S.K. Retail provides in its branches, participate in the customer loyalty program (*DANKESCHÖN*) and have access to a broad range of ancillary services, including reduced ticket prices for certain events (in cooperation with *oeticket*, an Austrian ticket agent and retailer), emergency cash services, key services and account transfer services.

In response to the technological savviness of a growing number of customers who do not require full access to branch and ancillary services, BAWAG P.S.K. Retail introduced an online-only current account (*Einfach Online Konto*). The *Einfach Online Konto* can be opened completely online using video legitimation technology, which makes BAWAG P.S.K. one of the first banks in Austria to offer this complete digital experience. Customers who maintain an *Einfach Online Konto* are charged a monthly service fee. However, the monthly service fee is refunded to the customer's account, and the account is therefore free of charge, if the monthly average balance of the customer's *Einfach Online Konto* equals or exceeds € 1,200. In line with the approach of offering an online-only account at reduced cost, customers choosing to maintain an *Einfach Online Konto* have only limited access to branch services, do not participate in the loyalty program (*DANKESCHÖN*) and do not have access to any ancillary services described above.

BAWAG P.S.K. Retail offers free current accounts for young people aged 14 to 19 (*KontoBox B4-19*) and for students up to the age of 27 years (*KontoBox Studenten*). Young retail customers who maintain a *KontoBox B4-19* receive a number of benefits including an unlimited number of automated transactions, have access to tickets at reduced prices for certain events (in cooperation with *oeticket*, an Austrian ticket agent and retailer), participation in a special customer loyalty program (*Popcoins*) and other services. Retail customers who are students and maintain a *KontoBox Studenten* have access to the same services and may also obtain a credit card at reduced cost. BAWAG Group believes serving the youth and student population is critical to maintaining family unit share and serves as a loyalty-building product.

For business customers, BAWAG P.S.K. Retail offers standard current accounts (*KontoBoxes*) supplemented by services typically required by small- to medium-sized businesses. The standard current accounts (*KontoBoxes*) for business customers come in three variations: *KontoBox Business Classic*, *KontoBox Business Extra* and *KontoBox XLarge Business*. BAWAG P.S.K. Retail charges service fees to its business customers on a quarterly or monthly basis, depending on pre-agreed service packages and actual services used. Its *KontoBox XLarge Business* targets self-employed clients whose needs are similar to those of private customers, including e-banking and automated transactions, payment cards and participation in the customer loyalty program (*DANKESCHÖN*). Customers who maintain a *KontoBox XLarge Business* are charged a monthly service fee of € 12.90. The *KontoBox Business Classic* and *KontoBox Business Extra* target companies with more sophisticated banking needs, such as performing banking transactions via standard, client-based computer systems (MBS – Multi-Banking-Standard) or using cash disposal services. Supplemental services include online (*eps* or *SOFORT Überweisung*) and offline (via *SIX Payment Services*) payment solutions. Companies maintaining a *KontoBox Business Classic* and *KontoBox Business Extra* are charged a quarterly service fee of € 59 and € 99, respectively, plus a fee based on transaction volume.

13.5.3.2 Savings Accounts – SparBox

The key retail products of BAWAG P.S.K. Retail also include savings accounts (*SparBoxes*). They come in three different variations: *SparBox FIX*, *SparBox FLEX* and *SparBox FLEX Zinsbonus*. They can be grouped into two categories: time deposit accounts (*SparBox FIX*) and demand deposit accounts (*SparBox FLEX* and *SparBox FLEX Zinsbonus*). Accordingly, a *SparBox FIX* savings account can be used to deposit funds of up to € 1,000,000 for a fixed term of six to 120 months at a fixed interest rate, which as of June 30, 2017 ranged from 0.02% p.a. (for time deposits of six months) to 0.40% p.a. (for time deposits of 120 months). *SparBox FIX* savings accounts may be opened and maintained at no charge. On the other hand, *SparBox FLEX* and *SparBox FLEX Zinsbonus* savings accounts can be used to deposit funds without limitation for a variable term at a variable interest rate, which as of June 30, 2017 were of 0.02% p.a. and 0.10% to 0.15% p.a., respectively. Customers who maintain a *SparBox FLEX* savings account are charged an annual service fee of € 3.40. *SparBox FLEX Zinsbonus* savings accounts may be opened only by holders of a current account (*KontoBox*) and are maintained at no charge. The interest rate for a *SparBox FLEX Zinsbonus* savings account depends on the *KontoBox* model (see "*13.5.3.1 Current Accounts – KontoBox*"). All customers who maintain a savings account (*SparBox*) have access to all branch services and all electronic and automated transactions relating to these accounts are free of charge.

13.5.3.3 Consumer Loans – KreditBox

BAWAG P.S.K. Retail offers three types of loans to Austrian consumers: *KreditBox Schnell*, *Kredit Box Auto* and *Einfach Online Kredit*.

The standard consumer loan product (*KreditBox Schnell*) allows customers to take out loans, currently with a principal amount of € 4,000 to € 75,000, for a maximum term of 10 years at variable or fixed interest rates (risk adjusted pricing) of 3.5% to 12% p.a., as of June 30, 2017. The loan commitment is communicated to the customer immediately after an automated credit check has been performed at the point of sale ("**POS**"), which usually takes only a few minutes. A credit decision is taken immediately at POS, unless certain loan parameters (e.g., combination of risk class and loan amount) trigger an exception process. Customers may request the adjustment of the terms of their consumer loan if the customer furnishes proof of a more attractive offer by one of BAWAG Group's Austrian competitors within four weeks of the conclusion of the loan agreement, BAWAG P.S.K. Retail will then – at its discretion – decide whether or not to revise the terms of the customer's loan agreement accordingly ("**Best Price Guarantee**"). Customers taking out a standard consumer loan (*KreditBox Schnell*) are also awarded bonus points under the loyalty program (*DANKESCHÖN*). To protect against the risk of death, the borrowing customer is offered to take out casualty insurance as part of the loan contract or provide evidence of existing risk coverage. Insurance coverage for disability and unemployment is optional.

BAWAG P.S.K. Retail also offers consumer loans and leasing contracts for motor vehicles (*KreditBox Auto*). For consumer auto loans, the terms of the *KreditBox Schnell* apply. For consumer auto leases, customers take out loans with a principal amount of € 5,000 to € 75,000, for a maximum term of seven years at variable or fixed interest rates from 2.99% to 4.125% p.a. as of June 30, 2017. The loan commitment is normally communicated to the customer after their creditworthiness has been confirmed by easyleasing. Customers taking out a loan also benefit from the Best Price Guarantee. They are also awarded bonus points under the loyalty program (*DANKESCHÖN*).

Customers are also offered the opportunity to apply for consumer loans online (*Einfach Online Kredit*). This online consumer loan (*Einfach Online Kredit*) allows customers to take out loans, with a principal amount of € 4,000 to € 50,000, for a maximum term of 10 years at variable or fixed interest rates (risk adjusted pricing) of 3.5% to 12% p.a. as of June 30, 2017. The customer completes the entire loan application process online including uploading the supporting documents, video legitimation to confirm the customer identification and use of an electronic signature ("*Handy Signatur*"). The loan is committed and paid when the application and supporting documents have been processed in the back-office, which usually takes a few days.

13.5.3.4 Housing Loan – KreditBox Wohnen

Housing loan products (*Kredit Box Wohnen*) include housing loans, mortgage loans and building saving loans.

BAWAG P.S.K. Retail offers housing loans with a principal amount of € 10,000 to € 200,000, for a maximum term of 25 years at variable interest rates (risk adjusted pricing) of at least 2.5% p.a. as of June 30, 2017. Customers taking out a housing loan benefit from the Best Price Guarantee. They are also awarded bonus points under the loyalty program (*DANKESCHÖN*). To protect against the risk of death, the borrowing customer is offered to take out casualty insurance as part of the loan contract or provide evidence of existing risk coverage. Insurance coverage for disability and unemployment is optional. In Austria, those who wish to refurbish a home can apply for public subsidies if the refurbishment improves the energy efficiency of the home. In order to demonstrate to the authorities that the refurbishment contributes to an improvement of the energy efficiency, they must furnish an energy efficiency analysis (*Energieausweis*). Such analyses are conducted by qualified experts the costs of which are borne by the owner. Customers who have obtained an energy efficiency analysis (*Energieausweis*), receive a refund of up to € 250 of the costs incurred, provided that they finance their refurbishments through one of BAWAG P.S.K. Retail's loan offerings ("**Energy Certificate Refund**").

BAWAG P.S.K. Retail's mortgage loans allow customers to take out loans, with a principal amount of € 50,000 to € 1,000,000 for a maximum term of 40 years at variable or fixed interest rates (risk adjusted pricing) of at least 1.125% p.a. as of June 30, 2017. BAWAG P.S.K. Retail offers fixed interest rate periods of up to 15 years and thereafter variable interest rates apply. Customers taking out a mortgage loan benefit from the Best Price Guarantee, the Energy Certificate Refund and bonus points under the loyalty program (*DANKESCHÖN*). The borrowing customer can obtain casualty, disability or unemployment insurance protection on an optional basis.

In cooperation with Wüstenrot, BAWAG P.S.K. Retail offers building savings loans that allow customers to obtain loans, currently with a principal amount of € 5,000 to € 180,000 for a maximum term of 32 years at variable or fixed interest rates of 2.3% to 6.0% p.a. In this case, BAWAG P.S.K. acts as a broker and the underwriting guidelines of Wüstenrot apply. The credit application is transmitted via an online system to Wüstenrot and the loan commitment is communicated in a matter of days once the application and supporting documents have been approved by Wüstenrot.

13.5.3.5 Securities – ErtragsBox

In cooperation with Amundi, one of Europe's leading asset managers, BAWAG P.S.K. Retail offers investment funds to its customers (*ErtragsBox*). When assisting its customers in their decision on how to invest their funds, BAWAG P.S.K. Retail seeks to first establish their risk appetite and their investment horizon. BAWAG P.S.K. Retail's product range provides multiple offerings for its customers across the risk spectrum and provides current income options, capital preservation and capital appreciation opportunities, as well as the opportunity for thematic investments. Quarterly, new products are introduced with Amundi, to provide customers with options to tailor their investments to their financial goals.

For customers who simply wish to invest funds generally in line with their risk appetite with no definite term, BAWAG P.S.K. Retail's key retail products are balanced funds which invest in both debt and equity instruments: *KONZEPT : ERTRAG konservativ*, *KONZEPT : ERTRAG ausgewogen*, *KONZEPT : ERTRAG dynamisch* and *KONZEPT : ERTRAG Aktien Welt*. The key difference between these products is the extent to which customers' funds may be invested in the equity markets (10% to 30% in the case of *KONZEPT : ERTRAG konservativ*, 30% to 50% in the case of *KONZEPT : ERTRAG ausgewogen*, 50% to 70% in the case of *KONZEPT : ERTRAG dynamisch* and 100% in the case of *KONZEPT : ERTRAG Aktien Welt*).

For customers with a defined investment horizon, BAWAG P.S.K. Retail's key retail products are the investment funds *KONZEPT : ERTRAG 2021*, *KONZEPT : ERTRAG 2023*, *KONZEPT : ERTRAG 2025, KONZEPT : ERTRAG 2027* and *KONZEPT : VORSORGE 2029*. Customers may select these investment funds with an equity markets portion ranging from 25% to 50% in accordance with their risk appetite. These products have a definite term. Towards the end of their term the investments of these funds are shifted from the equity markets to short-term assets with low volatility with the aim of safeguarding returns accumulated during the initial phase of the investment.

To ensure that customers' investments remain in line with their needs, customers are contacted on a yearly basis to establish the continuing adequacy of that customer's investment decisions (*MEIN LEBEN JahresCheck*). In addition to the above described investment funds, customers are offered a variety of other mutual funds such as money market funds, bond funds, balanced funds, equity funds and real estate funds managed by Amundi or other fund management companies. Furthermore, customers may invest in these funds on multiple occasions and may, in many cases, also choose to invest regularly as part of a funds saving plan with payments as low as € 50 per month.

For advisory and transaction services, BAWAG P.S.K. charges transaction fees and annual servicing fees for securities accounts, and receives commissions from the fund providers.

13.5.3.6 Insurance – VorsorgeBox

Through BAWAG P.S.K. Versicherung AG, a joint venture company that is 25% owned by BAWAG Group and 75% owned by the Generali Group, BAWAG P.S.K. Retail offers its customers a wide selection of insurance products. Its key retail insurance products are aimed at supplementing retirement payments (*KONZEPT : VORSORGE Start, KONZEPT : VORSORGE Plus*) or protecting customers or their families from everyday financial risks (alternative life insurance product (*Startvorsorge*), personal accidence insurance (*Classic-Unfallschutz*), life insurance (*Lebensschutz*) and funeral costs insurance (*Begräbniskostenvorsorge*)).

KONZEPT : VORSORGE Start is a traditional life insurance product intended to fund life-long annuity payments to the customer during their retirement. Under the terms of this product, the customer pays premiums of at least € 15 per month. Under Austrian law, the premiums paid by customers for this product must be held as insurance coverage funds (*Deckungsstock*). Such insurance coverage funds are special funds held by an insurance undertaking that must be managed separately from the undertaking's other assets to ensure that claims by policyholders are enforceable at all times. Furthermore, such funds may be invested only in low-risk assets. BAWAG P.S.K. Retail also offers fund-oriented life insurance (*KONZEPT : VORSORGE Plus*), which is subject to different regulatory requirements. In the case of this product, only parts of the premiums paid by customers are held as insurance coverage funds (*Deckungsstock*) while the remainder is invested in an *ErtragsBox* product (see "*13.5.3.5 Securities – ErtragsBox*") of the customer's choosing. This product also includes a benefit payable upon the insured's death which amounts to 10% of the insurance volume.

Generally, insurance products can be tailored to customers' needs and may be amended, for example, to provide for payments in case of the insured's death (*Lebensschutz*). Other key insurance products include: *Startvorsorge*, insurance that provides for a lump-sum payment to a beneficiary; *Classic-Unfallschutz*, accident insurance; and *Begräbniskostenvorsorge*, insurance intended to cover the costs of the insured's funeral. To ensure that customers' insurance products remain in line with their needs, customers are contacted on a yearly basis to establish the continuing adequacy of their insurance products (*MEIN LEBEN JahresCheck*).

Lately, BAWAG P.S.K. Retail has responded to a shift in customer demand away from life insurance products towards non-life insurance coverage through the launch of new products. In particular, the new products *KONZEPT : SCHUTZ Fixkosten* and *KONZEPT : SCHUTZ Gesundheit* protect customers against risks of disability, unemployment and severe illnesses, which are also offered through BAWAG P.S.K. Versicherung AG.

For the sale of insurance products, BAWAG P.S.K. receives sales commissions from the product provider.

13.5.3.7 Legacy Products – Migration Process

BAWAG P.S.K. Retail continuously strives to improve the products and services offered to its customers by regularly launching improved generations of its product families. These new products are then offered to both new and existing customers. For instance, in February 2016 a new version of the *KontoBox* family was launched which:

- widened the product choice, thus being better tailored to specific customer needs (e.g., *KontoBox XLarge* tailored towards couples),
- introduced the loyalty program (*DANKESCHÖN*), providing customers with attractive incentives,
- introduced a debit card gold ("*Kontokarte Gold*"), and
- switched from quarterly to monthly fee calculation to enhance transparency for customers.

In view of these added benefits, BAWAG P.S.K. Retail regularly approaches its existing customers to suggest upgrading to new generations of products. These activities are supported by marketing promotions and CRM campaigns.

In certain instances, such as product numbers falling below a critical scale or change of legal and economic circumstances, certain product families are also discontinued while customers are always offered attractive alternatives before canceling existing products.

13.6 easygroup

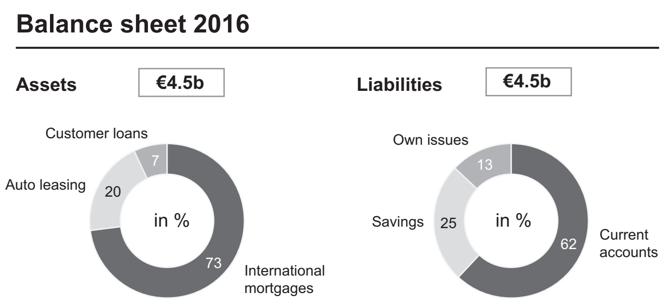
13.6.1 Segment Overview

easygroup was created in early 2016 to place primary focus on the non-traditional sales channels. easygroup today consists of: (i) **easybank**, the, in its own assessment, leading digital bank in Austria by current account and lending market share with a broad product offering for customers ranging from savings and current accounts, consumer loans, housing loans, credit cards, payment solutions and investment products for private and small business customers, (ii) **easyleasing**, the third-largest auto lessor in Austria (source: VÖL Leasing in Austria 2016) and a subsidiary of easybank, which focuses on the distribution of leasing products including auto leases, floor plan financing for auto dealerships, and a variety of equipment leasing for private and business customers, (iii) **international retail**, consisting of two portfolios of performing residential mortgages in the United Kingdom and France (see also "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*") and (iv) easypay which centralizes BAWAG Group's card issuing business consisting of easybank, BAWAG P.S.K. Retail and PayLife credit and prepaid cards.

As of June 30, 2017, the *easygroup* segment serviced approximately 426,000 private and small business customers and borrowers. easygroup is characterized by its innovative digital capabilities, broad but simple product offerings, lean and efficient operating model and ability to provide tailored customer service on a digital basis. It also benefits from relationships with various well-known institutions such as Shell, Energie Steiermark and the ÖAMTC.

In 2016, easygroup generated core revenues of € 125.9 million and profit before tax of € 86.7 million at a Cost-Income Ratio of 24.6%, representing 18.4% of BAWAG Group's profit before tax, and an RoE of 17.8%. As of December 31, 2016, the segment had € 4.5 billion of total assets with an NPL ratio of 2.1% and customer deposits of € 3.9 billion.

As of December 31, 2016, the segment's balance sheet comprised assets and liabilities as illustrated below:



Source: BAWAG Group's Financial Statements and Company information.

The following chart provides an overview of the portfolio of easygroup:

Focus on digital consumer finance products

easybank
€0.3b assets[1)]

- Austria's, in its own assessment, first direct bank
- Broadest product offerings
- Developed & valuable brand ... high trust factor
- ~325k customers
- Scalable business model

easyleasing
€0.9b assets[1)]

- #3 auto lessor[3)] & #2 non-captive lessor[3)]
- Consumer & SME leasing on autos, movables & IT
- No residual value risk... 99%+ finance leases
- Multi-channel approach (dealers, brokers & online)

easypay
2m issued cards[2)]

- One of the, in its own assessment, leading credit card issuers in Austria
- Merger of BAWAG P.S.K., easybank & PayLife[4)] card issuing
- Products include business & consumer cards & pre-paid / gift cards
- Provides scale for BAWAG Group

Niche player

International Retail
€3.3b assets[1)]

- Expansion in DACH & Western Europe (organic/inorganic)
- Launch of "Qlick", our digital brand starting in Germany & then beyond
- Executing opportunistic portfolio purchases
  - ✓ Valuable customer behavioral data for future markets
  - ✓ Better yield vs. securities

1) As of December 31, 2016.
2) Figures including PayLife.
3) Source: VÖL Leasing in Austria 2016.
4) Closed in October 2017.

Source: VÖL Leasing in Austria 2016 and Company information.

The following table shows certain key financial metrics of the easygroup segment in the periods under review:

	As of and, where applicable, for the six-month periods ended June 30,		**As of and, where applicable, for the financial years ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014**
	(in € million except for percentages)		**(in € million except for percentages)**		
Core revenues	83.7	64.8	125.9	65.2	39.3
Operating expenses	(15.8)	(15.7)	(30.6)	(23.4)	(23.2)
Profit before tax	**70.7**	**44.6**	**86.7**	**42.0**	**17.7**
Cost-Income Ratio	19.0%	24.2%	24.6%	35.9%	54.7%
RoE	**25.7%**[1)]	**22.1%**[1)]	**17.8%**[1)]	**17.6%**[1)]	**28.1%**
Assets	4,102	3,247	4,458	3,644	378
Deposits (excl. retail bonds)	3,761	3,673	3,893	3,204	2,864
NPL ratio	2.9%	3.0%	2.1%	1.9%	0.5%

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site*

Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

13.6.2 Key Strategic Objectives and Value Drivers

easybank offers a comprehensive suite of financial products, ranging from current accounts and savings products to credit cards, consumer and housing loans, auto leases and investment products.

easybank benefits from a lean and efficient operating model that utilizes technology and partnerships to reach customers instead of the traditional widespread brick and mortar networks. Partnerships such as those with ÖAMTC (the number one car association in Austria; co-branded credit cards), Shell (ATM network cooperation on gas stations) and Energie Steiermark (easy green energy, combining Energie Steiermark's utilities experience with easybank's digital competence) provide easybank with indirect access to approximately half the Austrian population. Together with its partners, easybank approaches its customers as a one-stop shop with a diversified range of products they need.

easybank's aim is to continue strengthening its customer base and increasing its, in its own assessment, already leading digital bank market share in Austria. Its focus is on expansion among a digitally savvy, younger demographic that does not significantly overlap with the customer base of the BAWAG P.S.K. Retail segment, with coordinated efforts in place to avoid competition. easybank's core focus areas include growing organically, both with new customers but also by cross selling to existing customers, and inorganically, especially in consumer finance. For example, BAWAG Group recently closed the acquisition of PayLife, the card issuing business of SIX Payment Services Austria. Combined with its existing credit and prepaid card business, this acquisition makes BAWAG Group, in its own assessment, one of the largest card issuers in Austria by number of prepaid and credit cards.

easybank further intends to expand into the wider DACH region, starting with Germany, where it obtained regulatory clearance to open a branch in Germany early in 2017. It plans to begin originating loans in the fourth quarter 2017 under a new brand called "Qlick", with a target volume of € 150 million for new originations in the first year and target market share of 1% to 2% of online consumer lending and 0.1% to 0.2% of the overall consumer lending market in Germany. Qlick will be easybank's international brand, initially focused on offering consumer loans in under 10 minutes through mobile apps. easybank is further evaluating an expansion into the U.K and regularly evaluates additional inorganic expansion opportunities.

easygroup continues to seek to drive efficiency across the organization to ensure that a positive customer experience is maintained while keeping costs low. A particular focus lies on simplifying processes to improve customer approval times and using analytics to better roll out new account offerings to provide services tailored to customers and to digitally cross-sell products when customers are most likely to want them. Additionally, easygroup aims to offer best-in-class products and services with pricing that rewards customer loyalty while maintaining a high level of profitability, staying disciplined on risk-adjusted pricing despite the competitive landscape to ensure low levels of risk.

As a digital-only bank and leasing provider, there are five core components to easygroup's strategy:

- Customers should be able to access products anytime, anywhere. Banking no longer requires a plan or schedule, and easybank intends to continue its investments in functionalities users want, ensuring easybank stays on the forefront of digital offerings for its customers.
- easygroup aims to offer simple, transparent products, with no hidden fees to ensure customers have confidence in its services. This means to use simple financial jargon in communications and to pursue a policy of direct marketing via the internet.
- easygroup understands that speed and ease are valued by its customers. Therefore digital processes have been designed so that they are easy to use and are straight to the point, while offering customers the ability to complete the application process at their own schedule.
- Banking should add value to customers' lives by offering automated personal finance management with budgeting tools and real-time tracking. An internal team of project managers is dedicated to upgrading digital channels, with a focus on creating functionality that adds value to customers and increases their ties to the bank.
- easygroup uses data to become smarter and to better understand customers' needs. Smart data and big data are the basis for personalizing offerings and monitoring customer and product profitability. Real-time analysis of data enables easybank to segment customers into various behaviors and identify key themes.

The easygroup segment has also expanded its balance sheet as a result of acquisitions of performing residential mortgage loan portfolios in France and the U.K which contributed 41% of that segment's profit before tax in the financial year 2016. These acquisitions help to advance its international growth strategy as they provide insights into product, market and customer behavior in those potential markets while also putting to work excess liquidity at safe, but higher returns.

13.6.3 Key Retail Products

The key retail products of the easygroup segment are leasing products, mortgage and consumer loans, credit cards, investment products, online-only current accounts and savings products. These products are often bundled with insurance and service offerings.

The following table gives an overview of the key retail products of the easygroup segment:

	Products	Distribution strategy	Assets (€m)	Description
Assets	Leasing	• Dealerships (~1,000) • Brokers • Direct	896	• Autos • Movables • Consumer & Business
Assets	Mortgages	• Brokers • Direct	105	• Secured • LTV: 54 %
Assets	Consumer loans	• Direct	51	• €4k–70k
Assets	SME banking	• Direct • Partnerships	31	• Current accounts • Secured lending • Unsecured lending
Assets	Credit cards (xPayLife)	• Direct • Partnerships	737 (turnover)	• Own branded • Co-branded • Revolving
Assets	Securities	• Direct	436 (AuM)	• Securities trading • Fund sales • Custodial accounts
Liabilities	Current accounts	• Direct • Partnerships	1,121	• Salary accounts • Student accounts • Overdraft
Liabilities	Savings	• Direct	2,770	• Variable savings • Fixed savings

Source: Company information.

13.6.3.1 Leasing Products

Under the brand *easyleasing*, easygroup offers vehicle leasing for private and business customers and leasing of other equipment assets for business customers. As of June 30, 2017, over 99% of easyleasing's leasing contracts qualified as finance leases which prevents any substantial residual value risk.

easyleasing offers leasing contracts to retail and business customers relating to new vehicles, such as automobiles, motorcycles, trucks and other special-purpose vehicles (e.g., forklifts). Customers are free to choose the vehicle brand of their liking and the kilometrage included in their lease contract. Depending on customers' needs, easyleasing offers leasing contracts that are either aimed at covering all of the acquisition and financing costs of the leased vehicle (full amortization) or at covering parts of the acquisition and all of the financing costs (partial amortization). Furthermore, to the extent permitted by applicable tax law, easyleasing offers to buy and lease back the vehicle (sale and lease back transaction) to business customers. In each case, customers have the right to use the leased vehicle for the agreed term of the lease contract in return for a fixed monthly payment. Customers can reduce their monthly payments by making a down payment at the beginning of the agreed term. At the end of the agreed term, customers may choose to extend the term of their original lease agreement, conclude a new lease agreement or purchase the leased vehicle. Customers bear the residual value risk, which means that, if they choose to return the leased vehicle, they are responsible for any difference between the outstanding balance and the amount received from the sale of the vehicle. However, in this line of business, only few vehicles are returned at the end of the agreed term.

Similarly, easyleasing offers to finance the purchase of used automobiles, motorcycles, trucks and other special-purpose vehicles for retail customers. This product, which is also referred to as *easykauf*, enables customers to finance the purchase of vehicles that are not otherwise suitable for leasing. Vehicles that may be financed using *easykauf* must be offered for sale by a commercial dealer and may not be older than 12 years by the end of the agreed term of the *easykauf* contract. Customers can reduce their monthly payments by making a down payment.

Business customers are also offered leasing contracts relating to other movable assets, such as machines, medical technology or IT infrastructure. Furthermore, sale and lease back transaction are offered to business customers. Business customers have the right to use the leased asset for the agreed term of the lease agreement in return for a fixed monthly payment. Customers can reduce their monthly payments by making a down payment at the beginning of the agreed term. Generally, these leasing contracts are structured to cover all of the acquisition and financing costs of the leased asset (full amortization / no residual value).

13.6.3.2 Mortgages

easybank's housing loan product *easy homekredit* allows customers to take out loans, currently with a principal amount of € 20,000 to € 1,000,000 for a maximum term of 30 years at a fixed or variable interest rate (risk adjusted pricing). The fixed rate *easy homekredit* housing loans start at 2.99% p.a. *easy homekredit* housing loans may be used to finance real estate related investments or refinance existing mortgage loans. *easy homekredit* housing loans must be collateralized by pledges over salary payments, a security interest in real estate (mortgage) and pledges over insurance claims. Customers wishing to finance a real estate related investment who do not want to create a mortgage over real estate to secure their repayment obligations, may choose the housing loan product *easy wohnkredit*. This product allows customers to take out loans, currently with a principal amount of € 5,000 to € 70,000 for a maximum term of 20 years at a variable interest rate (risk adjusted pricing). *easy wohnkredit* housing loans may be used to finance real estate related investments or refinance existing mortgage loans and must be collateralized by pledges over salary payments, assignment of certain claims and by insurance protecting against the customer's default under the loan agreement.

13.6.3.3 Consumer Loans

easybank's standard consumer loan product (*easy kredit*) presently allows customers to take out loans with a principal amount of € 4,000 to € 70,000 for a maximum term of 10 years at a variable interest rate (risk adjusted pricing) starting from 3.1% p.a. as of June 30, 2017. The pre-approval of the loan is communicated to the customer immediately during the online application process. Upon receiving the backup documentation from the customer (digitally or via regular mail), the customer's creditworthiness is reconfirmed. In the event of a final approval, the principal loan amount is made available to the customer on their current account immediately. If the loan application is made online, no service fees are charged, otherwise a service fee of currently 2.0% of the principal is charged. To increase customers' flexibility, customers taking out an *easy kredit* consumer loan may choose to defer the payment of their monthly installments up to four times during the term of their loan. At the same time, customers may choose to make additional and accelerated repayments at no extra charge.

13.6.3.4 Credit Card Products

easygroup offers its customers a wide variety of credit cards. These include cards offered under the *easybank* brand (in cooperation with Visa or MasterCard) or co-branded credit cards (e.g., in cooperation with the ÖAMTC or younion). Credit card products include credit cards, debit cards and prepaid cards. Customers are offered various flexible repayment solutions from paying their monthly bill in full, to having a revolving repayment scheme. If customers decide to choose the revolving repayment option, installments of at least € 100 are due each month. In turn, at least 10% interest on the outstanding portion of the customers' credit card balance is charged.

13.6.3.5 Investment Products

easygroup's online-only securities accounts (*easy broker*) enables customers, on a non-advisory basis, to personally execute their investment decisions. *easy broker* permits investments in equities, bonds, certificates, warrants and more than 7,000 investment funds. Orders can be placed around-the-clock on national and international stock exchanges or in over the counter transactions. Customers investing in the over 7,000 investment funds receive reduced transaction costs (*easy fondsdiskont*).

13.6.3.6 Current Accounts

easybank's key retail products include online-only current accounts which are comprised of free salary (*easy gratis Gehalt*) or pension (*easy gratis Pension*) accounts and fee-based salary (*easy konto Gehalt*), pension (*easy konto Pension*) and general purpose (*easy konto Privat*) current accounts. Furthermore, free current accounts are offered for university students (*easy student*), apprentices (*easy lehrling*) and school pupils (*easy schüler*). Finally, in compliance with applicable laws, a basic current account is offered to legal residents of the EU who can demonstrate that they do not otherwise have access to such an account in Austria (*easy basic*).

The main differences between free accounts (*easy gratis Gehalt* and *easy gratis Pension*) and fee-based current accounts (*easy konto Gehalt, easy konto Pension* and *easy konto Privat*) is simply the fee a customer pays. If a customer agrees to direct debit their monthly salary and/or pension, their current account is free and if not, the customer is upgraded to an *easy konto* account with a monthly service fee presently of € 4.65. If the customer's monthly average balance equals or exceeds a threshold, which is set at € 2,500 (as of June 30, 2017), the fee is waived. All current account customers receive a free debit card (*easy Karte*) and credit card *(easy Kreditkarte*). In addition, all account movements, internet banking services (*easy internetbanking*) and the use of a smart phone application (*easy app*) are also free.

For business customers, easybank offers an online-only current account (*easy business konto*) adapted to the needs of small to medium sized businesses, whereby the customer is free to make decisions regarding the time, amount of utilization and use. Repayment is ensured by account receipts from current business activities. The account management fee is dependent on the turnover on the account and represents 0.125% of the debit or credit side of the account (whichever is higher) in each quarter. easybank further provides its business customers with easy business loans for the purchase of assets, with interest rates starting from 1.75%, depending on the customer's creditworthiness and collateral provided. Finally, the easy business premium account, a savings account (currently with an interest rate of one basis point), completes the business customer product portfolio.

13.6.3.7 Savings Products

easybank's key retail products also include savings products which comprise sight deposit accounts (*easy zinsmax*) and building society savings plans (*easy bausparen*) which are offered in cooperation with Wüstenrot. Customers maintaining an *easy zinsmax* savings account (volume as of June 30, 2017: € 2.1 billion) may deposit funds for a variable term at a variable interest rate of 0.02% p.a. *easy zinsplus* offers ÖMTC credit card customers a variable interest rate of 0.05% as of June 30, 2017. The rates offered are set based on the current interest rate environment and have been reduced over the past year.

easy zinsmax savings accounts are maintained at no charge. Customers maintaining *easy zinsmax* savings accounts can manage these accounts using internet banking services (*easy internetbanking*) and a smart phone application (*easy app*).

For customers who wish to save towards real estate related investments, easybank currently offers a building society savings plan which allows customers to save at rates starting from monthly payments of € 30 and a minimum term of six years. The interest rate applicable to these savings products were in the range from 0.2% to 4.0% p.a. as of June 30, 2017. Customers choosing this savings product are also eligible for certain premiums paid by the Austrian state.

13.6.3.8 Insurance Products

Through BAWAG P.S.K. Versicherung AG, a joint venture company that is 25% owned by BAWAG Group and 75% owned by the Generali Group, easygroup offers to its customers a fund-oriented life insurance product referred to as *easy leben*. The *easy leben* insurance product may be structured to fund either life-long annuity payments or a lump sum payment to the customer. Furthermore, *easy leben* provides for a payment to a beneficiary upon the insured's death. *easy leben* contracts have a minimum term of 10 years and premiums start from € 15 per month.

13.6.4 International Mortgage Retail Loan Portfolios

The easygroup segment also includes two performing residential mortgage loan portfolios in the U.K. and France which were recently acquired as an investment and expected to be amortized over their remaining lifespan. These acquisitions fit well into the international growth strategy of easygroup and help to gain legal, product and customer behavior information in potential new markets. At the same time, easygroup benefits from the risk return metrics of these portfolios. These portfolios are underwritten on a stand-alone basis, as run-offs to ensure strict and disciplined purchase prices. As of June 30, 2017, 50% and 10%, respectively, of the loans included in the residential mortgage loan portfolios in the U.K. and France are bullet loans.

Both mortgage loan portfolios were subject to an on-site inspection requested by ECB, which resulted in a significant increase of the associated risk-weighted assets (RWA) (see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for more details).

13.6.4.1 U.K. Residential Mortgage Loan Portfolio

In December 2015, BAWAG Group acquired the U.K. Mortgage Loan Portfolio, a diversified portfolio of performing U.K. residential mortgage loans denominated in GBP with an initial volume of € 2.5 billion at the time of the acquisition. It is serviced by a third-party servicer. As of December 31, 2016, the portfolio had a total volume of € 1.8 billion and risk-weighted assets (RWA) of € 1.4 billion spread over 26,400 accounts with a weighted average loan size of € 47,000, a weighted average customer yield of 4.33% and a weighted average life of approximately six years. BAWAG Group expects the portfolio to amortize, primarily on a linear basis, by around 80% by 2020.

The portfolio's quality is in the Company's opinion demonstrated, for example, by the number of secured accounts which stood at 74% as of December 31, 2016, and which represented 97% of the current balance of the loan portfolio. Further, the portfolio had an average LTV of 64% (secured accounts: 74%; unsecured accounts: 26%) as of December 31, 2016. Historically, the U.K. residential mortgage loan portfolio withstood the downturn in the U.K. housing market during the recent global financial crisis primarily due to its seasoned and diversified pool of loans. As a result, the Company expects that Brexit will only have an overall moderate impact on the portfolio. In particular, the currency risk has been hedged.

The U.K. Mortgage Loan Portfolio generated a profit before tax of € 34 million in 2016.

13.6.4.2 French Residential Mortgage Loan Portfolio

In December 2016, BAWAG Group acquired the French Mortgage Loan Portfolio, a performing loan portfolio which is secured by residential mortgages or backed by a guarantee with the aim to further strengthen the easygroup segment's footprint in Western Europe. The portfolio is serviced by a third-party servicer. As of December 31, 2016, the portfolio had a total volume of € 1.4 billion and risk-weighted assets (RWA) of € 1.9 billion spread over approximately 21,000 accounts with a weighted average loan size of € 57,000, a weighted average customer yield (calculated in EUR) of 2.80% and a weighted average life of approximately five years. As of December 31, 2016, the portfolio included 70% residential loans and 30% buy-to-let loans (loans used to buy real estate which will subsequently be let by the acquirer), with houses and apartments each making up half the portfolio. BAWAG Group expects the portfolio to amortize, primarily linear, by around 80% until 2020.

Similar to the U.K. Mortgage Loan Portfolio, the acquired French residential mortgage loan portfolio also comprises quality assets. As of December 31, 2016, 67% of the loans were secured by mortgages (62% of the portfolio's current balance) and the remaining 33% were backed by guarantees (38% of the portfolio's current balance), and the portfolio's average LTV stood at 62% as of December 31, 2016. Loans backed by guarantees represent a peculiarity of the French housing market, in which mortgage insured loans, as opposed to classic "*hypothèque*" loans, exist. These mortgage insured loans are secured by a guarantee which is underwritten by an insurance company or a financial institution. The mortgage guarantees are only available to French residents with a good credit history and stable income. Under this system, the insurer acts as a guarantor for the loan in the event of default by the borrower. In turn, the borrower pays a premium (typically 80-200 basis points of the loan amount) upfront at the time of origination.

The French Mortgage Loan Portfolio generated a profit before tax of € 2.5 million in 2016.

13.7 Non-retail Customer Segments

13.7.1 DACH Corporates & Public Sector

13.7.1.1 Segment Overview

The DACH Corporates & Public Sector segment comprises BAWAG Group's corporate and public sector lending business and other fee-driven financial services for mainly Austrian customers, where the segment provides a full non-financial corporate and public sector coverage. As it also supports its clients in their cross-border activities, select client relationships in neighboring countries, primarily Germany, are also included in this segment.

In 2016, the DACH Corporates & Public Sector segment generated core revenues of € 119.2 million and profit before tax of € 71.0 million at a Cost-Income Ratio of 44.6% representing 15% of BAWAG Group's profit before tax and reflecting an RoE of 13.8%. The DACH Corporates & Public Sector segment originated new assets in the amount of € 650 million in 2016 with a focus on risk-adjusted returns. As of December 31, 2016, the segment managed assets totaling € 7.8 billion with an NPL ratio of 0.9% and customer deposits and other refinancings totaling € 5.5 billion.

The following table shows certain key financial metrics of the DACH Corporates & Public Sector segment in the period under review:

	As of and, where applicable, for the six-month periods ended June 30,		As of and, where applicable, for the financial years ended December 31,		
	2017	**2016**	**2016**	**2015**	**2014**
	(in € million except for percentages)		(in € million except for percentages)		
Core revenues	51.7	60.4	119.2	138.6	153.9
Operating expenses	(20.9)	(25.7)	(53.6)	(56.8)	(59.3)
Profit before tax	**38.0**	**36.0**	**71.0**	**80.5**	**61.8**
Cost-Income Ratio	39.1%	42.6%	44.6%	39.5%	38.0%
RoE	**14.7%**[1]	**13.9%**[1]	**13.8%**[1]	**15.3%**[1]	**12.7%**
Assets	7,958	7,437	7,812	7,527	8,933
NPL ratio	0.9%	1.3%	0.9%	1.3%	1.6%

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

13.7.1.2 Key Strategic Objectives and Value Drivers

The DACH Corporates & Public Sector segment's strategy focuses on entering into and maintaining sustainable and profitable relationships with its customers while remaining disciplined on pricing despite the competitive landscape. BAWAG Group believes the segment to be well positioned to capitalize on corporate banking opportunities across the DACH region, leveraging its Austrian customer base and relationship managers as well as its skills and know-how developed in the Austrian market to address German and Swiss markets. BAWAG Group believes that an expansion into the DACH region will provide a broader base of commercial opportunities and complement the international growth of easygroup into Germany.

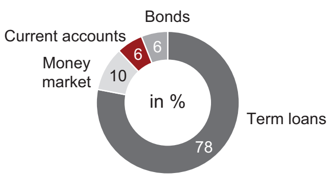
With respect to corporate clients, the segment focuses on a simplified coverage model concentrating on fewer profitable products instead of targeting overall market share. Existing clients are approached with a clear strategy aimed at retaining and extending the client base with an investment grade rating or high (or full) collateralization to maintain a low risk weighted assets ("**RWA**") ratio. In contrast, with respect to clients with small exposures and/or a non-investment grade rating, the segment's strategy focuses on appropriate risk return thresholds. For new business, the segment seeks to focus on product-agnostic opportunities arising from refinancings, syndications, restructurings and commercial real estate with a focus on its top 200 customers in the DACH region. BAWAG Group believes that by providing speed and flexibility in its service, the DACH Corporates & Public Sector segment will effectively compete despite requiring higher margins than some competitors.

In its public sector business, the segment's goal is to maintain its market position and retain cash management fees by focusing in particular on payments with existing top clients (e.g., Austria) and the acquisition of new clients for its payments business and clients through tender processes and cross-selling to existing borrowers. Furthermore, DACH Corporates & Public Sector has established an originate-to-sell platform to sell public sector loans to investors, such as insurance companies to generate additional fee income.

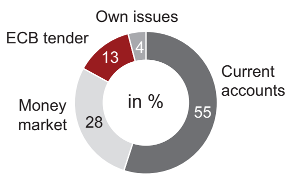
13.7.1.3 Key Products and Services

The DACH Corporates & Public Sector segment services its corporate and public sector customers with a range of products focusing on financing, in particular term loans and working capital loans, payment service products and securities. As of December 31, 2016, the segment's assets and deposits were composed as follows:

Assets **€7.8b**



Deposits[1] **€5.5b**

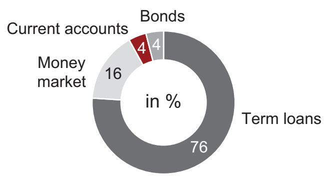


1) Including € 0.2 billion issued covered bonds.

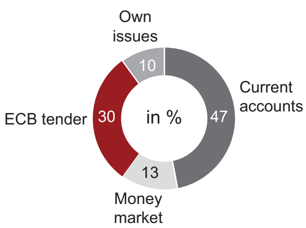
Source: Company information.

As of June 30, 2017, the composition of the segment's assets and liabilities was as follows:

Assets **€8.0b**



Deposits[1] **€6.8b**



1) Including € 0.7 billion issued covered bonds.

Source: Company information.

13.7.1.4 Clients

The DACH Corporates & Public Sector segment has a broad client base of corporate and public sector clients primarily in Austria (around 85% of the segment's exposure as of December 31, 2016), but also selected client relationships in neighboring countries, mostly Germany.

The segment services approximately 2,000 corporate clients comprising corporates with a turnover exceeding € 50 million and select real estate clients. It does not focus on construction finance.

The sub-segment public sector clients services approximately 2,000 client groups comprising the Austrian government, municipalities, public sector entities (e.g., waste water companies) and social and pension insurance companies as well as the payments business of institutional and major corporate clients in which public sector entities hold a stake. In particular, BAWAG P.S.K. entered into exclusive agreements with the Austrian government, several other public entities and some large corporates to act as their payment service provider.

Both client groups support the strong funding base of BAWAG Group with customer deposits of € 4.1 billion and other refinancings (funding directly related to loan origination, e.g. EIB, OeKB) in the amount of € 1.2 billion as of December 31, 2016.

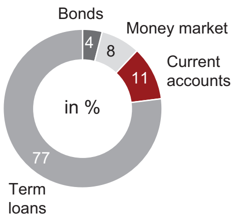
The segment's Austrian clients are serviced by a dedicated team of sales professionals across Austria comprising a centralized distribution network with on-site support by central and regional teams. Non-Austrian clients are serviced either entirely from Vienna or with the support of the London office in the case of syndicated loans.

13.7.1.5 Asset Portfolio and Liabilities

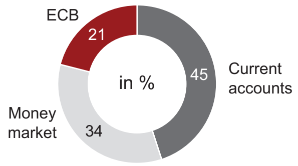
The asset portfolio managed by the DACH Corporates & Public Sector segment amounted to € 7.8 billion as of December 31, 2016. The largest part of the segment's asset portfolio is attributable to the public sector clients sub-segment, which accounted for 58% of the assets as of December 31, 2016, while the remaining portfolio was attributable to the corporate clients sub-segment, thereof 28% to corporate clients and 14% to the real estate sector. With a NPL ratio at 0.9% in the financial year 2016, BAWAG Group believes that the asset portfolio is of a high credit quality. The DACH Corporates & Public Sector segment's liabilities stood at € 5.5 billion as of December 31, 2016, 74% of which was accounted for by customer deposits, 22% by other refinancings and 4% by own-issued covered bonds.

Total assets of the corporate clients sub-segment were € 3.4 billion as of December 31, 2016, consisting of € 2.7 billion of term loans and bonds / private placements and € 0.7 billion of short term money (money market instruments and overdrafts). Based on internal ratings, the overall credit quality is solid, reflected in 68% of assets classified as investment grade equivalent rated assets (as of December 31, 2016). The sub-segment generated 61% of the DACH Corporates & Public Sector segment's core revenues, 70% of its net interest income and 43% of its net commission income as of December 31, 2016. The following chart provides a detailed breakdown of the assets and liabilities of the corporate clients sub-segment as of December 31, 2016:

Assets €3.4b



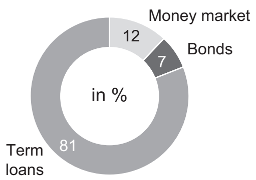
Liabilities €3.4b



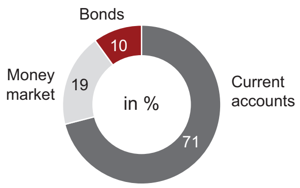
Source: Company information.

Total assets of the public sector clients sub-segment were € 4.4 billion as of December 31, 2016, consisting of € 3.8 billion of term loans and bonds / private placements and € 0.6 billion of money market instruments and overdrafts. Due to the nature of the clients in this sub-segment and based on internal ratings, 99% of the assets have an investment grade equivalent rating. The sub-segment's liabilities comprised € 1.5 billion of current account deposits at an external rate of 1 basis point. The sub-segment generated 39% of the DACH Corporates & Public Sector segment's core revenues, 30% of its net interest income and 57% of its net commission income as of December 31, 2016. The following chart provides a detailed breakdown of the assets and liabilities of the public sector clients sub-segment as of December 31, 2016:

Assets €4.4b



Liabilities €2.1b



Source: Company information.

The following table provides an anonymized overview of the top 10 loans of the segment as of December 31, 2016 measured by asset volume:

Public sector customers	Assets in € million	Country	Corporate customers (including commercial real estate)	Assets in € million	Country
CUSTOMER_1	826	AT	CUSTOMER_1	101	DE
CUSTOMER_2	135	AT	CUSTOMER_2	80	DE
CUSTOMER_3	121	DE	CUSTOMER_3	80	AT
CUSTOMER_4	90	AT	CUSTOMER_4	62	AT
CUSTOMER_5	76	AT	CUSTOMER_5	60	DE
CUSTOMER_6	65	AT	CUSTOMER_6	57	AT
CUSTOMER_7	64	AT	CUSTOMER_7	55	AT
CUSTOMER_8	54	AT	CUSTOMER_8	51	DE
CUSTOMER_9	53	AT	CUSTOMER_9	46	AT
CUSTOMER_10	48	AT	CUSTOMER_10	45	AT

Source: Company information.

13.7.1.6 Origination Platform and New Business

The DACH Corporates & Public Sector segment services its corporate customers with a dedicated team of relationship managers in BAWAG Group's headquarters and sales professionals across Austria supported by central product management and back-office services. Regular contact with the segment's clients enables the DACH Corporates & Public Sector segment to understand customer needs and structure its product portfolio accordingly. In the six-month period ended June 30, 2017, compressed margins arising from an over-liquid market led to slight market share losses. However, BAWAG Group believes strict pricing discipline to be important and the segment currently pursues new lending only selectively. While the DACH Corporates & Public Sector segment may charge higher margins than competitors, it aims to be competitive through higher speed and flexibility while maintaining credit quality.

Public sector clients are covered by a centralized team in BAWAG Group's headquarters that maintains close contact with the key clients and participates in public tenders of municipalities and outsourced public sector entities. Good relationships with these clients are necessary to secure invitations to tenders in which the best offer is awarded with the loan. As with respect to its corporate customers, the segment's strategy is to engage in new lending only selectively on the basis of strict pricing and credit quality standards. The segment has recently established an originate-to-sell platform for its public sector business. With this platform, the DACH Corporates & Public Sector segment originates public sector loans and sells them to investors, particularly insurance companies, and subsequently acts as a servicer for a yearly servicing fee. It also receives an upfront origination fee for these loans. For example, in June 2017, BAWAG Group sold the first four public sector loans originated pursuant to a partnership with an Austrian insurance company. Selected debtors are Austrian Federal States, cities and municipalities with a rating of at least A3 with loan maturities ranging from 10 to 40 years at fixed interest rates.

In general the segment's central and regional teams try to bundle product offerings by, for example, offering a loan in return for a certain share of payment transactions with the respective client. In its origination activities, the segment generally focuses on risk-adjusted returns.

The segment's new business in the six-month period ended June 30, 2017, amounted to € 381 million, an increase of 11% compared to € 344 million in the six-month period ended June 30, 2016. The average gross margin of the segment's new business in the six-month period ended June 30, 2017 was 1.55% (six-month period ended June 30, 2016: 2.56%) and net commission income, mainly driven by payment revenues, was stable at € 20 million.

In the financial year 2016, new business amounted to € 650 million (2015: € 389 million; 2014: € 661 million) with an average gross margin of 2.52% (2015: 1.60%; 2014: 1.65%). Of the new business generated in 2016, 15% was accounted for by public sector assets.

13.7.2 International Business

13.7.2.1 Segment Overview

Established in 2008, the International Business segment comprises BAWAG Group's core corporate and commercial real estate lending business which primarily focuses on Western Europe outside the DACH region and the United States. As of December 31, 2016, the segment managed assets totaling € 5.6 billion, of which 50% were attributable to international corporate lending and the remaining 50% to international commercial real estate lending (corporate real estate and portfolio financing).

In 2016, the International Business segment generated core revenues of € 134.0 million and profit before tax of € 102.4 million at a Cost-Income Ratio of 22.8% representing 22% of BAWAG Group's profit before tax and reflecting an RoE of 18.8%. In 2016, the segment originated new assets in the amount of € 2.7 billion through its international corporate, real estate and portfolio lending business in Western Europe and North America.

The following table shows certain key financial metrics of the International Business segment in the period under review:

	As of and, where applicable, for the six-month periods ended June 30,		As of and, where applicable, for the financial years ended December 31,		
	2017	**2016**	**2016**	**2015**	**2014**
	(in € million except for percentages)		(in € million except for percentages)		
Core revenues	65.4	67.8	134.0	142.2	101.4
Operating expenses	(15.0)	(13.3)	(29.9)	(25.7)	(21.7)
Profit before tax	**34.4**	**55.8**	**102.4**	**110.7**	**81.4**
Cost-Income Ratio	23.1%	20.1%	22.8%	18.9%	21.1%
RoE	**12.8%**[1)]	**20.3%**[1)]	**18.8%**[1)]	**19.9%**[1)]	**21.0%**
Assets	5,130	5,040	5,634	5,748	5,009
NPL ratio	0.9%	0.0%	0.0%	0.0%	0.1%

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

13.7.2.2 Key Strategic Objectives and Value Drivers

The International Business segment complements BAWAG Group's general business strategy by providing earnings growth and diversification in countries with stable geopolitical and macroeconomic fundamentals. The segment aims at international corporate, real estate and portfolio lending with a preference for secured or unsecured investment grade loans and senior secured non-investment grade loans. The segment's unsecured exposure is typically limited to investment grade corporate clients. In its International Business segment, BAWAG Group only lends at the senior level of the capital structure, with a focus on cashflow generating companies in industries where the risk to return profile meets BAWAG Group's targets.

The International Business segment employs a selective approach, turning down many potential deals for pricing or credit reasons and generally avoiding land and development projects, as it aims to maintain a premium pricing strategy in comparison to other market participants. However, by providing its services more reliably, flexibly and with quick response times, the International Business segment nevertheless believes to be able to compete effectively. In addition, disciplined underwriting processes and pro-active risk management are key for the segment's development.

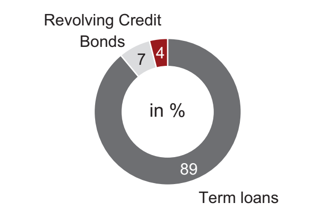
13.7.2.3 Portfolio Characteristics

13.7.2.3.1 Overview

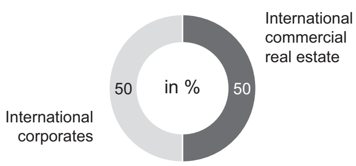
The segment's international corporate and international commercial real estate lending portfolios have a profitable track record with gross lending of € 10.9 billion and € 6.5 billion, respectively, since the portfolios' inception in 2008 and 2010, respectively.

As of December 31, 2016, the International Business segment's assets totaling € 5.6 billion were split by asset type and business area as follows:

Assets per type **€5.6b**



Assets per business **€5.6b**

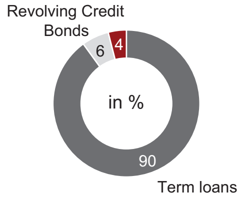


Source: Company information.

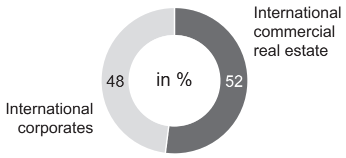
However, the individual portfolios' asset split as of December 31, 2016 was different. While the international commercial real estate lending portfolio only comprised term loans, the international corporate lending portfolio comprised term loans (80%), bonds (12%) and revolving credit facilities (8%).

As of June 30, 2017, the overall asset volume had decreased to € 5.1 billion largely due to high early redemptions in the international corporate lending portfolio due to favorable refinancing conditions. As a result, the international corporate lending portfolio volume decreased to € 2.5 billion as of June 30, 2017. However, the segment's total asset split as of June 30, 2017, was largely stable compared to the asset split as of December 31, 2016:

Assets per type €5.1b



Assets per business €5.1b



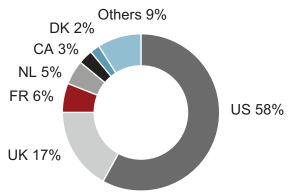
Source: Company information.

13.7.2.3.2 International Corporate Lending

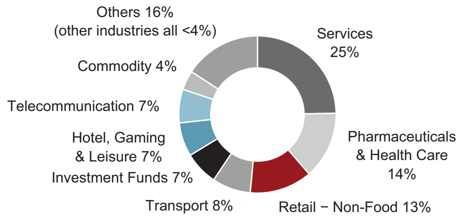
The international corporate lending business focuses on lending to free cash flow generating companies in Europe and North America with defensive business profiles, appropriate capital structures and strong market positions. The international corporate lending portfolio generated 50% of the International Business segment's core revenues and net interest income as of December 31, 2016.

As of December 31, 2016, the international corporate lending portfolio had a total volume of € 2.8 billion spread over 74 borrowers from various countries and industries (data based on loan size), thus demonstrating a broad diversification:

Geographical distribution



Industry distribution



Source: Company information.

Distributed by currency, as of December 31, 2016 and based on loan size, 62% of the portfolio was denominated in USD, 27% in EUR and 11% in GBP. The average loan size of the portfolio as of December 31, 2016, was € 25 million and the average maturity was 3.9 years. Further, the average total net leverage of the segment's corporate borrowers, excluding one outlier, was below 4.0x and, with respect to the loans held by BAWAG Group, below 3.0x (including outlier: below 5.0x and 4.0x respectively), and remained at that level as of June 30, 2017.

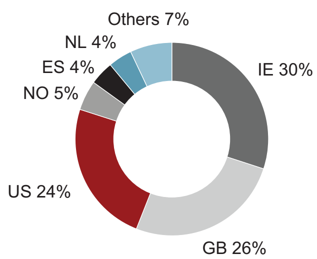
BAWAG Group believes that the quality of the segment's international corporate lending portfolio is further demonstrated by its internal rating distribution as of December 31, 2016, according to which, based on loan size, 83% of the loans in this portfolio are categorized as investment grade, while only 17% are categorized as non-investment grade. As of June 30, 2017, 72% of loans were characterized as investment grade. Further, since its inception in 2008, the portfolio has experienced low historical defaults and losses with only one realized loss of € 7 million on an investment in 2010, resulting in a cumulative loss rate of only six basis points relative to a portfolio volume of € 10.9 billion since the portfolio's inception.

13.7.2.3.3 International Commercial Real Estate Lending

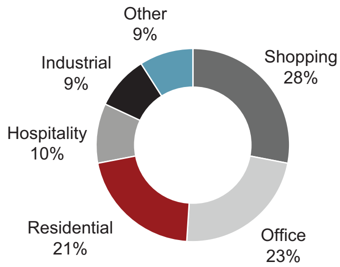
The International Business segment's international commercial real estate lending business is primarily a business driven by established sponsors for international private equity investments focusing on senior loan positions in cash flow generating properties with strong credit tenant leases in Europe and the United States. The portfolio has only a limited exposure in land, development and construction financings. The international commercial real estate lending portfolio generated 50% of the International Business segment's core revenues and net interest income as of December 31, 2016.

As of December 31, 2016, the international commercial real estate lending portfolio had a total volume of € 2.8 billion spread over 46 borrowers showing a diversification with financed properties being well distributed over countries and several segments:

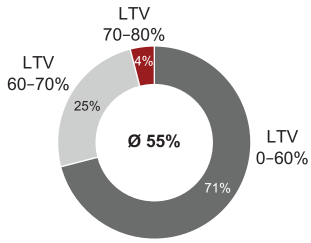
Geographical distribution



Property distribution



LTV distribution



Source: Company information.

Distributed by currency, as of December 31, 2016, and based on loan size, 43% of the portfolio was denominated in EUR, 27% in GBP and 24% in USD. As of December 31, 2016, the average loan size of the portfolio stood at € 45 million, and the portfolio had an average maturity of 2.5 years and an average interest coverage ratio above 2.5x.

BAWAG Group believes its segment's international commercial real estate lending portfolio to be comprised of quality assets. According to its internal rating distribution as of December 31, 2016, 98% of the loans in this portfolio are categorized as investment grade, while only 2% are categorized as non-investment grade. Of the average LTV of 55% as of December 31, 2016, based on loan size, 71% of the properties had an LTV of below 60%, a further 25% of the properties had an LTV of between 60% and 70%, and only 4% of the properties had a higher LTV of between 70% and 80%. In addition, the quality of the portfolio is supported by the portfolio's track record since its inception in 2010. During this entire period, in which the overall portfolio volume amounted to € 6.5 billion, the portfolio experienced no losses. As of June 30, 2017, the proportion of investment grade loans in the segment had increased to 99%.

13.7.2.4 Origination Platform and New Business

For BAWAG Group's International Business segment, new assets are originated through the London office with a focus on loan origination opportunities primarily in select developed Western countries.

In its international corporate lending business, the segment's origination team cooperates with the major banks for deal flow to participate in syndicated deals.

In its international commercial real estate lending business, the segment targets real estate and opportunity funds. The majority of deals are sourced directly with end clients on the basis of strong relationships with a number of funds (including Cerberus funds). Transactions sponsored by Cerberus represented approximately 10% of loans in the International Business segment as of July 31, 2017. The International Business segment does not seek to compete on price or LTV, but competes on speed, reliability of execution as well as flexibility. Being a relatively small player allows the segment to be nimble and opportunistic, i.e., to focus on areas in which it believes larger banks are less active. However, its origination team also works with the major banks for additional deal flow, and BAWAG Group aims to partner with such banks on larger transactions.

The segment's new business in the six-month period ended June 30, 2017, amounted to a total volume of € 0.8 billion, compared to € 1.0 billion in the six-month period ended June 30, 2016. Of such new business, the international corporate lending business originated new assets in the amount of € 0.4 billion with a focus on investment grade loans in industries where the risk-return-profile met the segment's targets. The international commercial real estate lending business also originated € 0.4 billion of new assets in the six-month period ended June 30, 2017, with a focus on traditional real estate financings with attractive LTV, strong cash flows, shorter weighted average maturities and solid covenants. International commercial real estate portfolio volume increased to € 2.6 billion as of June 30, 2017, with blended LTV remaining below 60% and the average interest coverage ratio continuing to be above 2.5x.

13.8 Treasury Services & Markets

13.8.1 Segment Overview

The Treasury Services & Markets segment acts as a service center for all BAWAG Group entities, customers and partners through market execution, and includes any treasury activities associated with providing trading and investment services such as certain asset-liability management transactions (i.e., the management of interest rate risk, collateral, capital and FX), funding (secured and unsecured) and the investment results of BAWAG Group's portfolio of financial securities as well as liquidity management. In particular, it manages BAWAG Group's bond portfolio and the liquidity reserve.

In 2016, Treasury Services & Markets segment generated core revenues of € 54.3 million (thereof 63% being attributable to the segment's portfolio of financial securities) and profit before tax of € 49.9 million representing 11% of BAWAG Group's profit before tax. As of December 31, 2016, the segment managed assets in the amount of € 6.7 billion.

The following table shows certain key financial metrics of the Treasury Services & Markets segment in the period under review:

	As of and, where applicable, for the six-month periods ended June 30,		As of and, where applicable, for the financial years ended December 31,		
	2017	2016	2016	2015	2014
	(in € million except for percentages)		(in € million except for percentages)		
Core revenues	24.9	28.2	54.3	58.1	54.8
Operating expenses	(8.0)	(8.0)	(16.3)	(19.0)	(21.6)
Profit before tax	**26.7**	**20.9**	**49.9**	**52.9**	**58.1**
Cost-Income Ratio	23.1%	27.7%	24.6%	26.4%	27.1%
RoE	**14.2%**[1)]	**12.2%**[1)]	**14.5%**[1)]	**14.5%**[1)]	**16.1%**
Assets	7,799	6,302	6,691	6,293	7,577
NPL ratio	0.0%	0.0%	0.0%	0.0%	0.0%

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. On a segment level, this resulted in a retrospective increase of risk-weighted assets and a decrease of the levels of RoE and return on risk-weighted assets in easygroup, but led in some instances to an increase of the performance metrics, especially the levels of RoE, in the other segments on the basis of the corresponding changes to the capital allocation. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: BAWAG Group's Financial Statements and Company information.

13.8.2 Key Strategic Objectives and Value Drivers

The investment strategy of the Treasury Services & Markets segment focuses on liquid investment grade securities with short durations primarily representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures and collateralized loan obligations (CLO) in order to maintain solid diversification and a sound liquidity position.

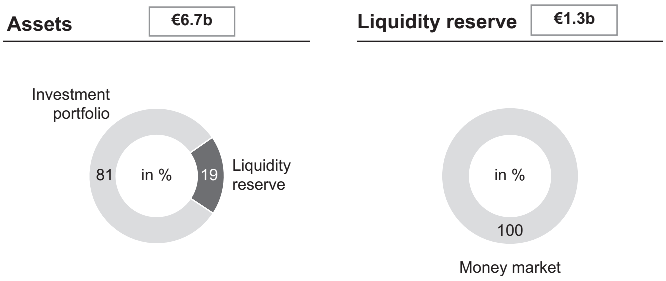
Geographically, the segment focuses on Western Europe and does not have, and currently has no plans to have, any exposure to China, Russia, Hungary and Southeastern European countries.

13.8.3 Portfolio Details

13.8.3.1 Overview

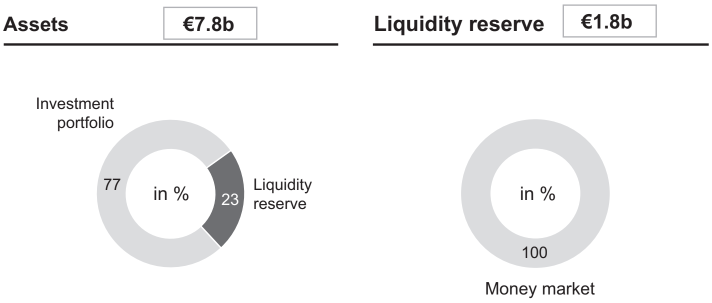
Among the key responsibilities of the Treasury Services & Markets segment is the management of BAWAG Group's liquidity from the core funding franchise in available-for-sale and held-to-maturity portfolios, including the liquidity reserve as well as certain hedging positions.

As of December 31, 2016, the segment's total assets amounted to € 6.7 billion consisting of an investment portfolio of € 5.4 billion and a liquidity reserve of € 1.3 billion mostly comprising bonds and money market instruments:



Source: Company information.

By June 30, 2017, total assets had increased to € 7.8 billion with an investment portfolio volume of € 6.0 billion and a liquidity reserve of € 1.8 billion:



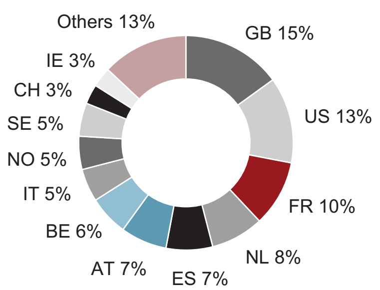
Source: Company information.

13.8.3.2 Investment Portfolio

As of December 31, 2016, the Treasury Services & Markets segment managed a total investment portfolio of € 5.4 billion. According to external ratings, 96% of the assets held in the investment portfolio were investment grade assets, with 80% of all assets rated single "A" or higher. Counterparties of the investment portfolio were financial institutions and sovereigns: 79% of investments in the investment portfolio represented fixed income securities issued by financial institutions, of which 56% represented unsecured bonds and 23% represented covered bonds of financial institutions; the remaining 21% of the investment portfolio was comprised of bonds issued by sovereigns or public sector entities (as of December 31, 2016). The investment portfolio's average maturity was 4.3 years.

Geographically, as of December 31, 2016, the investment portfolio comprised assets mostly in Western Europe, but also the United States:

Geographical distribution



Source: Company information.

By currency, 96% of the investment portfolio was denominated in EUR, 3% in USD and 1% in GBP. From an accounting perspective, 52% of the investments held in the investment portfolio were categorized as available-for-sale, 44% as held-to-maturity, while the remaining investments were classified as loans and receivables (3% of the investment portfolio) or accounted for at their fair value through profit or loss (1% of the investment portfolio) (in each case as of December 31, 2016).

As of December 31, 2016, the segment's investment portfolio had only very limited exposure to CEE Countries, which accounted for less than 2% of the investment portfolio, and no direct exposure at all to China, Russia, Hungary and Southeastern European countries.

The investment portfolio grew in the six-month period ended June 30, 2017 with volume increasing to € 6.0 billion and its average maturity to 5 years. The investment portfolio remained diversified with the largest counterpart accounting for 4% of the total investment portfolio volume and the top ten counterparts for 24%. In addition, the investment portfolio maintained its quality with, as of June 30, 2017, 97% of its assets being rated investment grade, thereof 86% rated single A or higher. Moreover, as of June 30, 2017, the investment portfolio continued to have only very limited exposure to CEE Countries (less than 2%), and no direct exposure at all to China, Russia, Hungary and Southeastern European countries.

13.8.3.3 Management of the Liquidity Reserve

The Treasury Services & Markets segment is also responsible for managing BAWAG Group's liquidity reserve.

The segment's short-term operational liquidity management, including liquidity coverage ratio (LCR) management, is based on a 30-day rolling forecast with the cornerstone of the liquidity management strategy being a stable liquidity buffer. The liquidity buffer comprises high quality liquid assets in accordance with the definitions of CRR ("**HQLA**") which are consistently sized to ensure a LCR above 100% with the target being over 120%. As of December 31, 2016, the liquidity buffer comprised more than € 2.5 billion HQLA bonds (post haircut), consisting to 96% of Level 1 HQLA bonds (thereof around 45% covered bonds), and € 0.4 billion of cash reserves. The assets of the liquidity buffer are generally deposited with the ECB, with amounts varying depending on regulatory requirements.

The following table provides an overview of the assets held in the liquidity reserve as of June 30, 2017, as well as of December 31, 2016, 2015 and 2014:

	June 30, 2017	2016	2015	2014
		(in € million)		
Money market	1,957	1,456	1,182	750
Liquid bonds	4,675	4,548	3,739	4,699
ECB-pledged credit claims	250	1,623	1,344	1,929
Short-term liquidity buffer	**6,882**	**7,627**	**6,265**	**7,378**
Illiquid bonds	1,356	915	689	1,960
ECB eligible credit claims in Cover Pools	24	285	140	212
Additional medium-term liquidity buffer	**1,380**	**1,200**	**829**	**2,172**
Total	**8,262**	**8,827**	**7,094**	**9,550**

Source: Company information.

13.8.4 New Business and Funding

New business in this segment is strongly driven by the liquidity planning of BAWAG Group within the context of organic and inorganic opportunities. The segment's new business in the six-month period ended June 30, 2017, amounted to a total volume of € 1,498 million (six-month period ended June 30, 2016: € 1,036 million). In the financial year 2016, new business amounted to € 1,492 million compared to € 1,152 million in 2015.

The segment's business is funded through a mixture of customer deposits, secured and unsecured bonds, participations in ECB tenders under the targeted longer-term refinancing operations (TLTRO), equity and other funds. In addition, the segment is responsible for the funding of BAWAG Group through own issues.

13.9 Corporate Center

BAWAG Group's Corporate Center segment includes unallocated items related to central support functions for the entire BAWAG Group, but does not have any customer business or interest-earning assets and liabilities. It comprises in particular certain assets and liabilities, including mostly accounting positions (e.g., market values of derivatives) but also real estate and fixed assets. In addition, BAWAG Group's equity and selected results related to subsidiary and participation holdings are reflected in this segment. Further, certain regulatory charges, including contributions to the SRF and the bank levy, as well as corporate taxes and non-operational items such as restructuring expenses are reported in the Corporate Center segment. However, contributions to the deposit guarantee scheme are not attributed to the Corporate Center segment, but rather, on a case by case basis, to either the BAWAG P.S.K. Retail segment or the easygroup segment depending on where the individual deposit is allocated to.

In 2016, the Corporate Center segment generated core revenues of € (3.8) million and losses before tax of € 8.7 million. As of December 31, 2016, the segment reported assets in the amount of € 3.5 billion and liabilities in the amount of € 2.8 billion.

13.10 Information Technology

BAWAG Group's information technology division provides most of the IT services for BAWAG Group's entities and product offerings. The major components are front office and self-service, core banking systems, analytics and databases, corporate risk and treasury, and IT Services. For the year 2016, BAWAG Group actively invested € 50 million in capital expenditures and € 42 million in operational expenditures to enhance its infrastructure, driving stability, security, cloud adoption, virtualization, product integrations, and regulatory enhancements. BAWAG Group is in the process of fully reviewing its technology stack and believes there are significant opportunities to enhance and optimize its current technology spend over the coming years.

Currently, BAWAG Group operates customer-facing IT services (such as e-banking and mobile apps) using dedicated infrastructure, which is separated from the infrastructure for its internal IT services and payment system. In addition, BAWAG Group outsources the firewall infrastructure within its datacenters, the infrastructure at the provider datacenters and at all of its branch locations in Austria as well as the operation and maintenance of its ATMs.

The IT platform is primarily based on systems running on standard applications from established providers. This ensures a level of complexity in line with industry standards and high scalability, leading to an efficient maintenance cost structure. BAWAG Group uses Oracle enterprise database technology, other database technologies provided by other well-established vendors as well as self-developed IT products.

BAWAG Group believes its IT systems to be superior to its competitors in terms of availability, stability and security. For example, in a recent security ratings report issued by BitSight Technologies, a U.S. company specialized in cyber security assessments, BAWAG Group has been rated significantly better than the global average and Austrian peers in terms of its cyber security performance (source: BitSight, Security Ratings Report, dated May 9, 2017). Further, the annual end-to-end availability of BAWAG Group's critical IT products has continued to increase over the years reaching approximately 99.95% in the financial year 2016, and major technical incidents continue to be significantly reduced. BAWAG Group has implemented a range of different measures to maintain or even improve this performance.

BAWAG Group has implemented several IT-related corporate guidelines, which are continuously reviewed and updated if needed. These guidelines provide, *inter alia*, for a general information security policy to be applied under consideration of the ISO 27002:2005 standard, standards for its internal authorization systems, safe handling of data and the proper use of IT systems, as well as conditions to be followed for individual data processing within the BAWAG Group and mobile usage of hardware and software through remote access, whereas these guidelines are organized in order to provide a homogenous point of access to suitable and readily available documentation to be used for, *inter alia*, third parties such as regulatory authorities or auditors and the like.

BAWAG Group has implemented a business continuity management system in order to ensure the continuation of the organization in times of business disruptions through identification and protection of critical business processes and resources in these critical situations in a standardized procedure, including staff training and continuous reviewing tests. This is accompanied by regular executions of further security tests by external security firms, including attempts to penetrate and/or manipulate the IT system from inside and outside of the organization.

BAWAG Group ensures that the results of these tests as well as all other relevant IT-related information are diligently analyzed and processed effectively within the organization. Accordingly, its reporting system provides for a regular exchange between the head of the information technology division and the management of BAWAG Group, including direct reporting by the CIO to the CEO. This enables BAWAG Group to improve and update its IT system in a timely way according to new challenges imposed by developments in technology.

BAWAG Group constantly invest in its IT infrastructure (see "*10.8.7.2 Intangible Assets*") and believes that its IT systems are well-prepared to adjust to new regulatory or market requirements.

13.11 Intellectual Property Rights, Domains, Licenses

BAWAG Group has a trademark portfolio consisting of a number of service trademarks in Austria, the EU and certain other jurisdictions. BAWAG Group, *inter alia*, owns the trademarks "BAWAG", "BAWAG P.S.K.", "Qlick", "e@sybank" and "e@syleasing". These trademarks are protected in Austria as national and/or EU word trademarks and/or word/design trademarks. Some of these trademarks are also protected as foreign national trademarks, EU trademarks and/or international registrations with protection, *inter alia*, in the EU and certain other jurisdictions. This notably includes protection of the word trademark and word/ design trademark "e@sybank". BAWAG Group also registered several internet domain names, in particular "bawaggroup.com", "bawagpsk.com" and "easybank.at". It believes that these domains enable BAWAG Group to operate an adequate online presence, in particular for e-commerce purposes. BAWAG Group does not own patents, utility models or design rights but believes that patents and utility models as well as design rights only play a secondary role in its business. Finally, BAWAG Group has entered into IT-related licensing agreements relating to standard products offered by Microsoft, IBM and others as well as to other software products necessary for conducting its business activities.

13.12 Employees

The following table shows, as of June 30, 2017 and as of the end of the financial years ended December 31, 2016, 2015 and 2014, the number of active full-time equivalent employees (FTE) by competence segment (including civil servants (*Beamte*) and civil employees (*Vertragsbedienstete*)). Not included are apprentices (*Auszubildende*) and externals, in particular agency workers (*Leiharbeitnehmer*), freelancers and employees of Austrian Post (including branch advisors) working in the branch network of BAWAG P.S.K. and Austrian Post.

	As of June 30	**As of the end of the financial year ended December 31,**		
Headcount by competence segment	**2017**	**2016**	**2015**	**2014**
	(unaudited)		**(unaudited)**	
CEO	221.8	239.8	277.7	321.4
Finance	106.2	105.2	106.4	119.0
International & Austrian Corporate	81.5	83.5	93.2	108.6
Operations	703.8	698.7	716.7	680.7
Retail	1,037.4	1,196.6	1,247.1	1,392.5
Risk	182.8	161.8	164.0	196.3
Others	8,4	8.4	9.6	9.0
Total	**2,341.8**	**2,493.9**	**2,614.6**	**2,827.5**

Source: Company information.

The employee figures include 168.9, 175.1, 202.5 and 247.2 civil servants and civil employees as of June 30, 2017 and as of December 31, 2016, 2015 and 2014, respectively. Civil servants and civil employees are subject to certain specific terms and conditions of employment, in particular restrictions as to the termination of their employment. The engagement of civil servants is subject to the statutory regime on civil service under which only "severe service infringements" may justify a termination. Other than for a limited statutory catalogue of "serious reasons", the employment of civil employees may not be terminated by BAWAG Group. Civil employees having attained the age of 50 with ten or more years of service are subject to a ban on terminations for reasons other than those related to the personal conduct of the individual civil employee.

Since June 30, 2017 and the date of this Prospectus, there have not been any material changes in the number of employees.

13.12.1 Collective Arrangements, Relationships with Employee Representative Bodies

BAWAG Group is bound by several collective bargaining agreements agreed upon between the competent employers' associations (*Arbeitgeberverbände*) and unions pertaining to the respective industry sector governing the terms and conditions of employment of employees other than civil servants and civil employees (besides special individual arrangements for the purpose of retention of certain key persons on group level), in particular the collective bargaining agreement applicable to the employees of the Austrian banking sector (*Kollektivvertrag für Angestellte der Banken und Bankiers*), including the collective bargaining agreement for pension funds (*Pensionskassen-Kollektivvertrag*) and the collective bargaining agreement regarding the revision of pension rights (*Kollektivvertrag betreffend Neuregelung der Pensionsrechte, "Pensionsreform 1961"*) (for BAWAG P.S.K.), the collective bargaining agreement applicable for the employees of the Austrian trade, service, information and consulting sector (*Kollektivvertrag für Angestellte im Handwerk und Gewerbe, in der Dienstleistung in Information und Consulting*) and the collective bargaining agreement applicable for the employees of the Austrian IT sector (*Kollektivvertrag für Angestellte im Bereich Dienstleistungen in der automatischen Datenverarbeitung und Informationstechnik*) (for Austrian subsidiaries). The engagement of civil servants and civil employees by BAWAG Group is governed by statutory Austrian law.

In the course of restructuring measures undertaken in 2015, a social plan (*Sozialplan*) was put in place by an arbitration panel (*Schlichtungsstelle*) at BAWAG P.S.K. which stipulates, *inter alia*, senior part-time (*Altersteilzeit*), severance payments in the event of mutual separation arrangements and other compensation arrangements mitigating potential impacts from redundancies for operational reasons. The social plan originally had a term until June 30, 2015. In February 2016 it has, however, been agreed to extend the term until December 31, 2017. The social plan will also apply to certain minor personnel adjustment measures contemplated to be implemented until the end of 2017 (mainly in BAWAG P.S.K.'s retail segment). The estimated costs are reflected in the respective provision for restructuring measures.

There are several forms of employee representation at BAWAG Group at a company and local level. At BAWAG P.S.K., a central works council (*Zentralbetriebsrat*) has been established as well as seven local works councils (being competent for each of the respective Austrian states with joint works councils for Burgenland/Lower Austria (*Niederösterreich*) and Tyrol (*Tirol*)/Vorarlberg, respectively). Further works councils exist at several Austrian subsidiaries (BAWAG P.S.K. Datendienst GmbH, start:bausparkasse, easybank and easyleasing, E2E Kreditmanagement GmbH and E2E Transaktionsmanagement GmbH).

In the past three years, no strikes occurred at BAWAG Group. Good relationships with its employees and employee representatives are particularly important for BAWAG Group and it believes these relationships are good.

13.12.2 Compensation

Employees of BAWAG Group are remunerated in accordance with regulatory requirements, in particular CRD IV and the BWG. The regulatory framework stipulates certain requirements with respect to the remuneration system and respective company policies, *inter alia*, as to the alignment of remuneration with effective risk management measures, ratios between fixed and variable remuneration components as well as long-term nature aspects and caps applicable to remuneration components. Specific regulatory requirements exist with respect to management board members, certain senior management staff and "risk takers". Such requirements include, *inter alia*, the long-term nature of remuneration, its sustainability and the need to have an appropriate management and incentive effect, as well as a cap on variable remuneration equal to 100% or, as in the case of BAWAG P.S.K., 200% of fixed remuneration. On December 13, 2016, the general shareholders' meeting of BAWAG P.S.K. resolved to increase the bonus cap to 200% for compensation payments in respect of the financial year 2016. On September 15, 2017, the Company's shareholders' meeting approved an increase of the annual variable compensation for the financial year 2017 and subsequent years until further notice to up to 200% of the fixed compensation for 50 key function holders (in particular in relation to members of the Management Board of the Company, members of the management board of BAWAG P.S.K., national and international experts in the senior leadership team of BAWAG Group, and specialists). In addition, certain specific regulatory requirements exist as to the remuneration for staff engaged in the areas of financial instruments and the retail customer business segment to avoid conflicts with respective customer interests.

BAWAG P.S.K. and its subsidiaries have implemented a compensation system that includes fixed and variable remuneration components as well as fringe benefits/benefits in kind focusing on risk adequacy, sustainability and appropriateness of remuneration and linked to the performance of BAWAG P.S.K. and the respective individual, respectively, also with a focus in individual cases on retention of key persons. Individuals covered under the 'qualitative or quantitative criteria' stipulated in the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile ("**CRD IV Staff**") (*inter alia*, management board members, certain senior management staff, senior "risk takers", senior staff with control functions and "high earners") as well as employees with an annual base remuneration above € 50,000 gross may be granted functional allowances up to one third of the individual base compensation. As of June 30, 2017, approximately 90 employees of BAWAG Group have been identified as CRD IV Staff. The variable remuneration component (bonus pool) operates on the concept of company and division goals and individual performance-related targets. The annual bonus pool depends on the achievement of the respective budgeted IFRS profit before tax (PBT) figures (after bank levy and before bonus accrual) providing for a linear adjustment between 8% PBT upon achievement of 80% of the budgeted IFRS PBT and 12% PBT upon achievement of 120% of the budgeted IFRS PBT. For target achievements below or above such thresholds, the bonus pool will be determined within the discretion of the committee for management board matters of the Supervisory Board (*Ausschuss für Vorstandsangelegenheiten*). The bonus pool is in each case subject to approval by the committee for management board matters of the Supervisory Board and review by the Remuneration Committee based on the market situation, performance of BAWAG P.S.K. and assessment of related risks. The respective bonus component is in principle capped at 100% of the individual's fixed remuneration (including benefits in kind). Bonus awards exceeding such cap are permitted in case of a significant over fulfillment of company goals and individual targets up to 200% of the individual's fixed remuneration (including benefits in kind) and must be approved by the committee for management board matters of the Supervisory Board. Variable compensation components for CRD IV Staff exceeding 25% of the individual's fixed compensation or € 30,000, respectively, are subject to a deferral scheme which stipulates that 40% of the individual bonus payment (or 60% in case the bonus award exceeds 100% of the individual fixed remuneration or € 150,000, respectively) is deferred for a period of five years with payment in five equal installments (including interest equal to 5% p.a. plus up to 4% consumer price index increase), i.e., four annual installments beginning with the following year and a final installment upon final appraisal. Such deferred bonus amount is subject to a 5-year review period so that each installment will consider and be assessed on the respective financial situation of BAWAG P.S.K. at the time of the payout of the installments. Any unpaid installments may be subject to claw-back if the employment has been terminated by the employer for cause. Non-variable bonus awards (such as, e.g., sign-on bonuses) are only permitted with respect to new hires with payment required in the first year, provided that BAWAG P.S.K.'s equity is reasonably considered as correspondingly "solid and adequate". The overall guidelines of the compensation system, the remuneration policy and practices as well as compensation-related incentive structures of BAWAG Group (in accordance with the BWG) are subject to monitoring by the Remuneration Committee (except as to any such matter involving Management Board members for which the committee for management board matters of the Supervisory Board is competent).

For further details on the compensation of the members of the Management Board see "*21.2.4 Management Board Compensation*" and of the members of the Supervisory Board see "*21.3.5 Supervisory Board Compensation*", respectively.

13.12.3 Pension and Long-Term Employee Benefits

As part of the employment compensation package, BAWAG Group provides retirement benefits and similar employee long-term benefits.

BAWAG Group operates funded and unfunded (*inter alia* collective bargaining-based) defined benefit (DB) and defined contribution (DC) schemes for beneficiaries. The collective bargaining agreement applicable to the employees of the Austrian banking sector provides for specific pension benefits (DC) channeled through a pension insurance fund (BONUS Pensionskassen Aktiengesellschaft and APK Pensionskasse Aktiengesellschaft, respectively). This pension scheme is financed by company and employee contributions (the employer portion equals 2.7% of the individual employee's gross remuneration per annum up to a maximum contribution ceiling, employees may undertake, on a voluntary basis, additional contributions up to the same amount); special regulations apply to certain key persons. For civil servants and civil employees, a separate pension fund has been established in accordance with the collective bargaining agreement regarding pension fund commitments for federal staff (*Kollektivvertrag über die Pensionskassenzusage für Bedienstete des Bundes*) which is financed by contributions from the company and the civil servant/civil employee (each 0.75% of the individual civil servant/civil employee's gross remuneration per annum up to a maximum contribution ceiling) (such pension fund being *Bundespensionskasse AG*). Employees of BAWAG P.S.K. (including employees who have been transferred to E2E Kreditmanagement GmbH and E2E Transaktionsmanagement GmbH, respectively) who commenced employment prior to January 1, 1992, are subject to a DB pension scheme which has been closed for new entries since January 1, 1997. The pension benefit entitlements thereunder are subject to a freeze with effect as from January 1, 1997 (but continue to be adjusted in accordance with the respective inflation rates). For employees of certain subsidiaries (BAWAG P.S.K. Datendienst GmbH, start:bausparkasse, IMMO-Bank, easybank, easyleasing, E2E Kreditmanagement GmbH and E2E Transaktionsmanagement GmbH), DC pension schemes are in place. Further, in total five individual pension agreements are in place at BAWAG P.S.K. which provide for a monthly pension subsidy (*Pensionszuschuss*) in addition to the statutory severance payments. The monthly pension subsidies are determined on the basis of a contractually agreed calculation basis which takes into account the last monthly salary, in particular.

Civil servants employed by BAWAG Group are further entitled to pension benefits for which the relevant employer makes regular contributions to the state during their employment in line with the applicable statutory provisions (the contributions amount in principle to 31% of the individual civil servant's gross remuneration and may be increased depending on the individual civil servant's age; the contributions are borne by the employer and the civil servant).

As of December 31, 2016, BAWAG Group had total defined benefit obligations (DBO) (under IAS 19) amounting to € 270 million of which € 10 million are funded by plan assets administered by the respective pension insurance funds. In the financial years 2016, 2015 and 2014, the expenses recorded in BAWAG Group's consolidated profit and loss statements (service cost and net interest expense) amounted to

€ 7 million, € 8 million and € 12 million, respectively, while pension benefits payments and contributions to pension funds which were recognized as usage of the pension provision for defined benefit schemes (*Leistungs- und Beitragszahlungen*) amounted to € 12 million, € 14 million and € 16 million, respectively. In addition, contributions to pension insurance funds for defined contribution schemes (*Beitragszahlungen*) amounted to € 7 million, € 5 million and € 5 million, respectively.

Besides pension benefits, BAWAG Group provides other employee long-term benefits, such as statutory and voluntary termination indemnities (*Abfertigungen*) and jubilee payments (*Jubiläumsgeld*). As of December 31, 2016, BAWAG Group had corresponding total obligations (DBO) (under IAS 19) amounting to € 97 million (as regards termination indemnities) and € 29 million (as regards jubilee payments), respectively.

13.13 Real Estate and Leases

As of the date of this Prospectus, BAWAG Group operates 433 branches in Austria. BAWAG Group owns or leases 74 of these branches and, with respect to the remaining 359 branches, BAWAG Group enjoys a right of use (*Nutzungsrecht*) under a cooperation agreement with Austrian Post (see "*13.17.1 Cooperation Agreement with Austrian Post*"). For information on the intended termination of cooperation agreement with Austrian Post, see "*13.3.3 Focus on Efficiency and Operational Excellence*". BAWAG Group's largest locations are in Vienna, Austria, along with its headquarters, which provides most of the central functions for its operations.

BAWAG Group continues to review its property requirements, taking into account cost containment measures as well as growth initiatives in selected businesses. The following table shows the material properties occupied by BAWAG Group as of the date of this Prospectus:

Location	Size (sqm)	Use	Leased / Owned
Georg Coch Platz 2, Vienna, Austria	42,110	Headquarter	leased[1)]
Quellenstraße 51-55/Buchengasse 10-14/11-15, Vienna, Austria	55,572	Headquarter	leased[2)]
Grosvenor 55, London, United Kingdom	779	Office	leased
Am Tabor 4-6, Vienna, Austria	4,168	Datacenter	leased
Baumkirchnerring 6, Wiener Neustadt, Austria	7,107	Shopping center & offices	owned
Tenschertstraße 4-6, Wien, Austria	4,228	Warehouse	owned
Annenstraße 24, Graz, Austria	2,430	Regional Headquarter (Styria)	owned
Wipplingerstraße 1, Vienna, Austria	910	Branch	leased
Max-Ott-Platz 5, 5024 Salzburg, Austria	936	Branch	leased
Landstraße 85, 4020 Linz, Austria	788	Branch	leased

1) As part of BAWAG Group's cost containment measures and in order to improve the efficiency of its administration, BAWAG Group is relocating its headquarter operations from Georg Coch Platz 2, Vienna, Austria to another building in the center of Vienna which is currently under construction. The lease of BAWAG Group's current headquarters will terminate following its relocation to its new headquarters. BAWAG Group currently expects to complete the relocation in the first quarter 2019.

2) As part of the relocation described under footnote 1 above, BAWAG Group decided to also relocate parts of its headquarter operations from Quellenstraße 51-55/Buchengasse 10-14/11-15, Vienna, Austria to its new headquarters. BAWAG Group currently expect to complete this relocation in the first quarter 2019.

Source: Company information.

There are no significant encumbrances (such as land charges or easements) affecting any property owned or leased by BAWAG Group.

13.14 Material Legal Disputes and Administrative Proceedings

BAWAG Group is involved in legal and administrative proceedings as part of its ordinary business activities. Such proceedings in particular include lawsuits with customers and consumer protection associations such as the Chamber of Labour and the Consumer Information Association. Similar disputes and proceedings will likely also arise in the future.

It is impossible to reliably determine or predict the outcome of proceedings pending or threatened. Other than the proceedings described below, during a period covering the previous twelve months, no legal or administrative proceedings (including any proceedings which are pending or threatened of which the Company is aware) may have or have had in the recent past significant effects on the Company's financial position or profitability.

13.14.1 Litigation with the City of Linz

On February 12, 2007, BAWAG P.S.K. entered into a resettable CHF linked swap agreement with the City of Linz based on the Austrian framework agreement for derivatives transactions. The swap was based on a nominal value of CHF 195 million. This corresponded to the nominal value of a CHF bond that the City of Linz had issued. The swap had a term of ten years. While the swap originally resulted in payments from BAWAG P.S.K. to the City of Linz, after the financial market crisis in 2008 and the appreciation of the CHF against the euro, the City of Linz was required to make payments to BAWAG P.S.K.

In October 2011, the City of Linz refused to make further payments. Consequently BAWAG P.S.K. terminated the swap agreement. In November 2011, the City of Linz sued BAWAG P.S.K. asserting that the swap agreement was void alleging that the resolutions adopted by the city council did not cover such a transaction and an approval by the Austrian province of Upper Austria (*Oberösterreich*) would have been required. The City of Linz sought payment of CHF 30.6 million (equaling approximately € 24.2 million for the purposes of the court procedure) plus interest and costs. BAWAG P.S.K. rejects these claims and has filed a counter-claim seeking payment of € 417.7 million plus interest and costs. For reasons of utmost precaution, this receivable has been written down to a carrying value of approximately € 254 million in the financial year 2011 and is reported in the Corporate Center segment (risk-weighted assets (RWA): € 254 million). BAWAG P.S.K. bases its claim on costs related to the termination of the swap transaction (€ 397.7 million) and an outstanding payment due under the swap transaction (€ 20 million). The court proceedings are still pending in the first instance. While the judge originally had assumed that the swap agreement is valid, now after obtaining an expert opinion he informed the parties that such validity cannot necessarily be assumed and that an amended expert opinion will be required as a next step in the proceedings. A final decision in the first instance is expected at the earliest in 2018. Appeals will be possible to the court of appeals and potentially also to the Austrian Supreme Court (*Oberster Gerichtshof*).

Were the court to hold that the swap transaction was void, BAWAG P.S.K. could be obligated to pay the claimed amount to the City of Linz in full or in part, and BAWAG P.S.K. may not be awarded, in full or in part, the payment sought and would then be required to write-down its claims further. In addition, even if the court holds that the swap transaction was valid, BAWAG P.S.K. may still not be awarded, in full or in part, the payment sought, in which case it would be required to write-down its claims further. Finally, depending on the outcome of the proceedings, BAWAG P.S.K. may be required under statutory law to bear some or all of the court and legal fees of the City of Linz. As of December 31, 2016, BAWAG P.S.K. had incurred total legal fees of € 27 million in connection with the proceedings.

13.14.2 Arbitration proceeding with Austrian Post

Austrian Post has sued BAWAG P.S.K. in an arbitration procedure under Austrian law for an increase in transaction fees for a portion of the services provided in the joint branch network. Under the cooperation agreement, Austrian Post and BAWAG P.S.K. operate joint branches, whereby Austrian Post provides certain financial services (in this case, transaction services), including cash deposits, payments and withdrawals, on behalf of BAWAG P.S.K. at the counters of Austrian Post. Austrian Post claims that under the PSK-G it is entitled to an adequate compensation that exceeds the contractually agreed yearly compensation. The PSK-G provides that Austrian Post has to render banking services at its counters for the Postal Savings Banks (*Postsparkasse* – "**PSK**"). The background for this provision is that Austrian Post and PSK originally had been governmental institutions. As PSK did not have its own branch network, it was entitled to make use of the branch network of Austrian Post. When Austrian Post and PSK were privatized, the PSK-G provided that they had to conclude a cooperation agreement and agree on an adequate compensation, which was mutually agreed by contract in 1997 and 2010. PSK eventually merged with BAWAG to form BAWAG P.S.K. Austrian Post argues that despite the parties having agreed by binding contract on a compensation structure in the cooperation agreement and for many years abiding by its requirements, it at all times is entitled to adequate compensation. Austrian Post further argues that such compensation has to at least cover its costs, including both direct and indirect (or allocated) costs from overhead functions, and provide profit margin.

BAWAG P.S.K.'s takes the view that Austrian Post is only entitled to the contractually agreed transaction fees since the PSK-G leaves it to the parties to mutually agree on the compensation, based on information provided by Austrian Post at the time the prices were set. Furthermore, BAWAG P.S.K. holds that the law cannot be interpreted to mean that BAWAG P.S.K. is subject to unforeseeable fees since it does not have any insights or control of the costs of Austrian Post. Even if the law should allow for an amendment of the fees, the current transaction fees are more than adequate, as they are in the opinion of BAWAG P.S.K. above the market price for such services or the costs of BAWAG P.S.K., were it to operate the branch network on a stand-alone basis or outsource such counter activity to a third party. Nevertheless, if Austrian Post is successful with all or part of its claim, BAWAG Group will face negative consequences in its financial and earnings position.

A hearing in the arbitration is scheduled for the end of November 2017.

For more information regarding the cooperation between BAWAG Group and Austrian Post, see "*13.17.1 Cooperation Agreement with Austrian Post*".

13.14.3 Proceedings in Austrian Courts relating to ALPINE

BAWAG P.S.K. was joint lead manager or co-lead manager for bonds issued by ALPINE Holding GmbH from 2010 to 2012. In July 2013, insolvency proceedings were opened regarding this corporate issuer. Several claims have been filed against the banks involved in the issuance and the distribution of ALPINE bonds, among them BAWAG P.S.K. Generally, these claims allege either erroneous investment advice or prospectus liability (or both). Following an internal assessment of the claims based on erroneous investment advice, BAWAG Group identified and consequently settled a limited number of cases that it believed were well founded. The remaining claims currently filed against BAWAG Group amount to approximately € 29 million which are (also) based on prospectus liability and in certain cases (amounting to an aggregate volume of € 12.2 million in dispute) are also grounded on allegedly erroneous investment advice.

In order to assess whether the prospectus liability claims against BAWAG Group as well as other involved banks are well founded, the competent court appointed an expert in April 2015. The expert opinion is expected to be delivered in March 2018. The expert regularly updates the parties to the proceedings on her findings. Based on the information shared to date, BAWAG Group believes that there is no substantiated indication that there will be a basis for a prospectus liability claim, while the outcome of the proceedings – which are still pending in the first instance – is not conclusively predictable. Furthermore, in May 2017, the public prosecutor's office denied to continue the prosecution and investigation against unidentified members of the lead arrangers (Anzeige gegen Unbekannt) for criminal wrongdoing relating to the issuance of the bonds of ALPINE Holding GmbH. In its reasoned statement, the public prosecutor held that there was no indication that members of the lead arrangers committed any unlawful acts in connection with the issuance or the distribution of the bonds of ALPINE Holding GmbH. However, it cannot be excluded that the civil law courts may find in favor of the claimants and order BAWAG P.S.K. to pay the entire amount claimed to the bond investors.

On the other hand, BAWAG Group and other banks sued Austria to enforce guarantees which Austria had granted under the Act on the Strengthening of Company Liability (*Unternehmensliquiditätsstärkungsgesetz* – "**ULSG**") with respect to certain repayment claims of these banks against the ALPINE Group. The ULSG was adopted after the financial crisis and allowed Austria to guarantee the repayment of loans which credit institutions granted to Austrian companies. Such guarantees were also provided for repayment claims under loans that were granted by BAWAG P.S.K. to ALPINE Group. After the insolvency of ALPINE Bau GmbH, Austria argued that the guarantees were invalid because ALPINE did not fulfill the application requirements pursuant to the ULSG since ALPINE was insolvent at the time when the loans were granted. The claims BAWAG Group asserts against Austria amount to approximately € 19 million. The guarantee claims are sued for by the banks in two separate legal proceedings. On August 18, 2017 BAWAG Group and the other banks obtained a favorable judgment from the court of first instance (*Handelsgericht Wien*) in the legal proceedings referred to as "ULSG II" obliging Austria to pay to BAWAG Group an amount equal to €7.5 million (plus default interest). It is likely that Austria will appeal this decision.

In the event that the court-appointed expert in the ALPINE investor litigation cases concludes that the prospectus liability claims were well founded and/or that the banks knew, or should have known, about the unsound financial situation of the ALPINE Group, this may also negatively impact the cases against Austria, which could force BAWAG Group to write-off the repayment claim of approximately € 19 million. However, the competent court in the proceedings against Austria also appointed an expert, who has to analyze, whether ALPINE fulfilled the relevant guarantee application requirements.

13.14.4 Administrative Proceedings regarding the Austrian Act on Consumer Payments Accounts

The Austrian Act on Consumer Payment Accounts (*Bundesgesetz über die Vergleichbarkeit von Entgelten für Verbraucherzahlungskonten, den Wechsel von Verbraucherzahlungskonten und den Zugang zu Verbraucherzahlungskonten mit grundlegenden Funktionen* – the "**VZKG**"), which came into force on September 18, 2016, grants consumers inter alia, the following rights: If a customer requests to switch an account to another bank, the required data must be provided to the other bank within 5 business days upon receipt of the request. Further, customers, who do not have a payments account, are entitled to a basic account (*Basiskonto*). If a bank declines the opening of such an account, this has to be done in writing.

Due to an unexpected overload of requests for the switching of accounts to other banks, such requests could not be processed smoothly by BAWAG P.S.K. in some instances, resulting in delays, which led to customer complaints. These delays were caused by communication problems with other banks; in particular as there is no fully automated process in place and each bank uses its own application forms for the opening/switching of payments accounts, technical issues and the high number of requests shortly after the introduction of the new regulation.

FMA imposed administrative fines on five members of the management board and four division heads of BAWAG P.S.K. of in a total € 460,000. Under applicable statutory law, BAWAG P.S.K. could be held responsible for the payment of the fines.

Appeals were filed on the basis that (i) the relevant persons met their supervisory duties and did not act negligently, (ii) the fines were inappropriately high, in particular exceeded fines awarded in comparable cases, (iii) different persons were fined for the same (alleged) error, and (iv) FMA did not consider mitigating aspects, for example relevant persons have no previous convictions and no damages to customers resulted from the violations. The appeals are currently pending with the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*).

13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment

In the first quarter of 2017, BAWAG Group was subject to an on-site inspection requested by the ECB with respect to the treatment and management of credit risk in certain business areas. The inspection focused on a detailed analysis and risk overview of two international retail mortgage loan portfolios (the U.K. Mortgage Loan Portfolio acquired in December 2015, see "*13.6.4.1 U.K. Residential Mortgage Loan Portfolio*" for further details, and the French Mortgage Loan Portfolio acquired in December 2016 through a French securitization vehicle (*Fonds commun de titrisation* – the "**FCT**"), see "*13.6.4.2 French Residential Mortgage Loan Portfolio*" for further details), each forming part of the international retail business allocated to the easygroup segment, and of portfolios in the International Business segment (see "*13.7.2 International Business*" for further details). Furthermore, the organizational framework, policies and procedures and the credit risk management in these areas were evaluated and an analysis of risk-based samples of relevant credit files was conducted.

According to the ECB's findings, which were finalized in September 2017, the on-site inspection identified a number of severe shortcomings in the areas investigated, having a material impact on BAWAG Group's RWA levels and own funds ratio.

13.14.5.1 RWA of the U.K. Mortgage Loan Portfolio

Since the acquisition of the U.K. Mortgage Loan Portfolio in December 2015, BAWAG Group had assigned a preferential risk weight of 35% to the exposures of the portfolio secured by mortgages on residential property. The ECB is of the view that BAWAG Group's application of such preferential risk weight is incorrect and BAWAG Group should have treated these loans as unsecured retail loans with a risk weight of 75% according to CRR because qualitative CRR criteria for the eligibility of mortgage collateral were not fulfilled (including, without limitation, proof of first-ranked land register entries and insurance coverage). According to the ECB, the RWA level reported for the U.K. Mortgage Loan Portfolio had been significantly underestimated and the RWA for the portfolio reported as of December 31, 2015, June 30, 2016, December 31, 2016 and June 30, 2017 must be increased retrospectively. BAWAG Group believes that it does not have an increased economic risk because representations and warranties provide sufficient economic protection in order not to suffer losses higher than those implied by the preferential risk weight of 35% despite potential quality issues identified in the on-site inspection, and the entire portfolio represents loans secured by residential mortgages. However, in the second quarter of 2017, BAWAG Group initiated measures to address the quality issues raised by the on-site inspection report in a timely manner. As of June 30, 2017, BAWAG Group had obtained land register extracts, proving that 99.6% of the portfolio is secured by first-ranking mortgages. Furthermore, a global insurance policy was contracted for the portfolio. Therefore, the eligibility for the preferential risk weight of 35% was established as of June 30, 2017, which will be applied by BAWAG Group going forward. Retrospectively, BAWAG Group applied the RWA approach taken in the on-site inspection report. Accordingly, the individual customers in the U.K. Mortgage Loan Portfolio have been reclassified resulting in adjustments to the reported RWA. The table below sets out the retrospective adjustments to RWA to reflect findings from the on-site inspection.

	December 31, 2015	**June 30, 2016**	**December 31, 2016**	**June 30, 2017**
	(unaudited, in €)			
RWA as reported	988,763,955.88	836,849,060.41	723,487,846.09	644,260,839.13
Delta	919,423,700.67	744,962,519.85	660,556,668.11	254,835.54
RWA as adjusted	**1,908,187,656.55**	**1,581,811,580.26**	**1,384,044,514.20**	**644,515,674.67**

Source: Company information.

13.14.5.2 RWA of the French Mortgage Loan Portfolio

The assets of the French Mortgage Loan Portfolio acquired in December 2016 are held by the single purpose FCT vehicle with the entire acquisition being financed through units issued by the FCT and subscribed by BAWAG P.S.K. The FCT structure is commonly used in France for loan portfolio purchase transactions, in particular to enable a cost-efficient transfer of loans in a cross-border context. Based on the structure, BAWAG Group had applied a look-through approach to the French Mortgage Loan Portfolio in order to determine the RWA associated with it. On this basis, since the acquisition in 2016, it has assigned the preferential risk weight of 35% to exposures of the portfolio secured by mortgages on residential property.

The ECB is of the view that the investment in the units financing the French Mortgage Loan Portfolio does not allow BAWAG Group to apply a risk weight that would be applied by an institution directly holding the exposures (as opposed to holding them through an FCT), despite the economic substance of the underlying loans. According to the ECB, the FCT structure does not allow the treatment of the mortgages in the portfolio as real estate collateral for purposes of the CRR, and the CRR rules for collective investment undertakings (CIUs) are applicable to the FCT structure. Therefore, according to the ECB, the RWA reported for the French Mortgage Loan Portfolio had been significantly underestimated. Despite these findings, BAWAG Group believes that it does not have an increased economic risk because the portfolio is secured by residential mortgages which serve as credit risk mitigation in case of a default of individual obligors. Furthermore, representations and warranties provide sufficient economic protection in order not to suffer losses higher than those implied by the preferential risk weight of 35% (resulting in an average risk weight of 45% for the portfolio). However, BAWAG Group intends to initiate measures to address this finding in consultation with the ECB.

As a result of the ECB's findings, the reported RWA of the French Mortgage Loan Portfolio as of December 31, 2016 and June 30, 2017 had to be increased retrospectively (applying for this purpose and going forward a risk weight of 134%). The table below sets out the retrospective adjustments to RWA to reflect findings from the on-site inspection.

	December 31, 2016	June 30, 2017
	(unaudited, in €)	
RWA as reported	655,708,458.19	607,503,683.88
Delta	1,242,882,925.79	1,121,042,151.17
RWA as adjusted	**1,898,591,383.98**	**1,728,545,835.05**

Source: Company information.

13.14.5.3 Large Exposure Treatment of the French Mortgage Loan Portfolio

Given the high granularity of the French Mortgage Loan Portfolio with approximately 21,000 loans, BAWAG Group applied a look-through approach for the purpose of calculating large exposures and monitoring large exposure limits based on the granular monthly data delivery it receives from the servicer for the whole portfolio. As of December 31, 2016, based on an average single exposure of € 71,000 with only 20 loans of the entire portfolio having an outstanding nominal amount exceeding € 1 million and the maximum single exposure amounting to approximately € 3.5 million, each underlying loan was treated as a single exposure with no large exposure having been identified because the applicable single large exposure limit with respect to each client or group of connected clients amounted to € 702 million as of December 31, 2016. In the view of the Joint Supervisory Team ("**JST**"), BAWAG Group breached the large exposure limit as it lacked the required personal information which is necessary to identify the individual clients in the portfolio and therefore should have treated the overall exposure to the FCT vehicle as one client or group of connected clients for large exposure purposes. BAWAG Group believes that the large exposure treatment was at all times correct due to the look-through to the single exposures. In addition, none of the individual exposures of the French Mortgage Loan Portfolio could have led or would currently lead to a breach of the single large exposure limit when combining the exposure with other exposures of BAWAG Group to the same client. However, measures agreed with the ECB have been taken to sufficiently identify the individual clients and thus remedy from September 14, 2017 onwards what the JST believes was a breach of the large exposure limit.

After unambiguously identifying the individual clients of the French Mortgage Loan Portfolio and matching those clients with BAWAG Group's remaining customer base, the review showed that three clients were identical with the exposures as of August 31, 2017 as set out below. None of the total exposures would have triggered the large exposure limits of BAWAG Group.

	Exposure French Mortgage Loan Portfolio	Exposure BAWAG Group (except for the French Mortgage Loan Portfolio)	Total Exposure
		(unaudited, in €)	
Client #1	53,948	0	53,948
Client #2	203	148,024	148,227
Client #3	176,601	15,500	192,101

Source: Company information.

In the event that sanctions based on Austrian law were to be imposed in view of the breach of the large exposure limit referred to in the on-site inspection report with respect to the period from the acquisition of the French Mortgage Loan Portfolio in December 2016 until September 14, 2017, BAWAG Group anticipates that any potential fines would not exceed a € million figure in the high teens. As a consequence, the consolidated interim financial statements as at September 30, 2017 will include a provision for this risk. Considering also tax effects associated with the payment of such fines, the Company expects the impact from such fines (if imposed) on BAWAG Group's profits after tax not to exceed a € million figure in the low teens.

13.15 Insurance

BAWAG Group believes that it has risk-adequate and economically reasonable insurance coverage in place, to the extent customary in its industry. BAWAG Group deems its insurance to be sufficient to meet its needs in light of potential future claims.

BAWAG Group maintains insurance coverage of various insurance policies, including comprehensive general liability, fire and other property insurance, electronics insurance, all risks business interruption insurance and real estate insurance for mortgage loans. In addition, a Directors' and Officers' (D&O) liability insurance policy is in force for members of the Management and Supervisory Board and for management employees with a commercial function. BAWAG Group believes to have risk-adequate insurance coverage against all material risks that are typically insured by similar companies with comparable risk exposure and that it pays appropriate premiums for this coverage.

The insurance coverage is regularly evaluated and adjusted. It cannot, however, be ruled out that BAWAG Group could suffer damages that are not covered by the existing insurance policies or that exceed the coverage limits set in these policies. Furthermore, there is no guarantee that BAWAG Group will also be able to obtain adequate insurance cover at appropriate points in the future.

13.16 Material Acquisitions and Divestitures

BAWAG Group explores in its ordinary course of business opportunities to acquire other companies or businesses or divest parts of its business ("**M&A Activities**").

Between 2014 and the date of this Prospectus, BAWAG Group considers the following to be the most significant M&A Activities in terms of size or strategic importance:

2014

CEE segment exit	**Sales of entities operating in the CEE region whose operations were not in line with the bank strategy**
February 2014	Sale of its remaining 1.39% share in MKB Bank, Hungary, to the majority shareholder BayernLB
March 2014	Sale of two Hungarian Leasing subsidiaries, BAWAG Leasing Zrt. and BAWAG Leasing & Fleet Kft by way of a management buyout as part of BAWAG Group's strategy to reduce the leasing activities in Central and Eastern Europe
Non-core segment exit	**Sales of entities & product lines which did not meet the product profitability & equity return target levels**
June 2014	Sale of BAWAG Group's 25% stake in Generali Leasing GmbH to the majority shareholder Generali Versicherung AG
Acquisitions	**Sales of entities & product lines which did not meet the product profitability & equity return target levels**
October 2014	Acquisition of an initial share of 2% in Marlette Funding LLC, a United States based P2P platform (current share: 2.76%)

2015

Non-core segment exit	**Sales of entities & product lines which did not meet the product profitability & equity return target levels**
February 2015	Sale of BAWAG P.S.K. INVEST GmbH to Amundi S.A.
February 2015	Sale of BAWAG Group's 9.52% stake in Therme Geinberg
March 2015	Sale of BAWAG Group's 3.58% share in WED Holding Gesellschaft m.b.H.
April 2015	Establishment of the easy green energy joint venture together with Energie Steiermark
July 2015	Sale of BAWAG Group's 50% stake in BAWAG Allianz Vorsorgekasse AG to the joint venture partner Allianz Elementar Versicherungs-AG
August 2015	Sale of the remaining stake of BAWAG P.S.K. in Österreichische Lotterien GmbH
Acquisitions	**Acquisition of Volksbank leasing entities, precursor for set up of easyleasing business franchise**
October 2015	Acquisition of VB Leasing Group comprising VB Leasing Finanzierungsgesellschaft m.b.H., VB Technologie Finanzierungs GmbH (100%) and ACP-IT Finanzierungs GmbH (75%) from immigon portfolioabbau ag Group
December 2015	Acquisition of Leasing-west GmbH
December 2015	Acquisition of the U.K. Mortgage Loan Portfolio, a portfolio of U.K. performing international residential loans

2016

Non-core segment exit	**Sales of entities & product lines which did not meet the product profitability & equity return target levels**
January 2016	Sale of BAWAG Malta Bank Ltd. by BAWAG P.S.K.
Acquisitions	**Acquisition of Start Bausparkasse and Immobank, strengthening the domestic retail product offer**
December 2016	Acquisition of start:bausparkasse and IMMO-BANK from the Volksbanken Group
December 2016	Acquisition of the French Mortgage Loan Portfolio, a portfolio of French performing international residential loans

2017

Non-core segment exit	**Sales of entities & product lines which did not meet the product profitability & equity return target levels**
May 2017	Sale of BAWAG Group's 24% stake in WBG, a Vienna based housing cooperative, to the majority shareholder
July 2017	Sale of BAWAG Group's 26.3% stake in media.at, a Vienna based media agency, to Dentsu Aegis
Acquisitions	**Acquisition of credit card business and Südwestbank beachhead platform in Germany**
October 2017	Acquisition of PayLife, the card issuing business of SIX Payment Services Austria
Fourth quarter 2017 or first quarter 2018	Expected acquisition of Südwestbank

Source: Company information.

For more details on certain key acquisitions, see also "*10.2 Key Events in the Periods under Review*".

13.17 Material Contracts

The following section provides a summary of material agreements to which any member of BAWAG Group is a party. Furthermore, agreements which are of specific importance in the context of the Offering are described under "*16.2 Transactions and Relationships with the Selling Shareholders and their Affiliates*".

13.17.1 Cooperation Agreement with Austrian Post

BAWAG P.S.K. and Austrian Post are party to a cooperation agreement dated December 16, 1997, as amended and supplemented by various agreements. Under the Austrian Post cooperation agreement, Austrian Post and BAWAG P.S.K. operate joint branches, whereby Austrian Post provides certain financial services, including cash deposits, payments and withdrawals, on behalf of BAWAG P.S.K. at the counters of Austrian Post. Currently, 74 branches are owned or leased by BAWAG P.S.K., 359 branches by Austrian Post. According to its terms, the cooperation agreement has an indefinite term and may be terminated unilaterally at the earliest on December 31, 2017 with effect as of December 31, 2020.

For the reasons set out in "*13.3.3 Focus on Efficiency and Operational Excellence*", and absent a holistic restructuring of the cooperation agreement with Austrian Post with significant cost reductions, BAWAG P.S.K. will in the future pursue a stand-alone strategy and intends to give notice of termination of the Post cooperation agreement prior to December 31, 2017. Pursuant to the cooperation agreement, the termination will become effective on January 1, 2021 (unless an earlier termination is agreed by the parties). BAWAG P.S.K. will remain open to restructuring discussions with Austrian Post, however any solution would require a significant cost reduction based on market rates.

For a legal dispute between BAWAG P.S.K. and Austrian Post regarding transaction fees in connection with the Austrian Post Cooperation Agreement, see "*13.14.2 Arbitration proceeding with Austrian Post*".

14 ACQUISITION OF SÜDWESTBANK

In July 2017, BAWAG Group signed the acquisition of Südwestbank. The transaction is expected to close in the fourth quarter 2017 or the first quarter 2018. Closing was subject to, *inter alia*, the approval by the German Federal Cartel Office (*Bundeskartellamt*) and remains subject to the ownership control clearance by the German Financial Supervisory Authority (*BaFin*), the German central bank (*Deutsche Bundesbank*) and ECB, and receipt of a foreign investment clearance certificate from the German Federal Ministry for Economic Affairs and Energy.

14.1 Overview of Südwestbank's operations

Südwestbank, headquartered in Stuttgart, South-West Germany, is an independent medium-sized universal bank in the private bank sector. As of December 31, 2016, Südwestbank had total assets of € 7.4 billion and for the year ended December 31, 2016 reported profit before tax of € 25 million, net interest income of € 103 million, net fee and commission income of € 33 million, gains and losses and other operating income and expenses of positive € 7 million, operating expenses of € 95 million, risk costs and regulatory charges of € 23 million and a CET1 ratio of 12% (in each case adjusted to exclude interest income of € 57 million attributable to an equity investment portfolio which was sold in January 2017).

Südwestbank has approximately 100,000 customers and operates in the prosperous state of Baden-Württemberg with a focus on the state capital of Stuttgart and the surrounding area. Its main business activities include lending business, deposit business and brokerage activities with private and commercial customers offering a broad product portfolio. Südwestbank has approximately 48,000 retail and corporate current accounts accounting for approximately 35-40% of its deposits (average funding costs of current account deposits was approximately 0.08% compared to approximately 0.70% overall average funding costs for Südwestbank as of December 31, 2016). As of December 31, 2016, Südwestbank held customer loans of € 4.2 billion, including a retail portfolio driven by € 1 billion of housing loans to approximately 50,000 customers and a € 2 billion corporate loan portfolio largely consisting of corporate borrowers in the region. In addition, Südwestbank has its own asset management business with approximately € 3 billion of assets under management.

The primary focus of Südwestbank's operations is placed on private customers, small and medium sized, often family-owned entities. The private, asset management customers and small business customers are serviced by four regional market areas (Mittlerer Neckar, Baden, Bodensee-Oberschwaben and Hohenlohe-Franken/Mittlerer Schurwald). The private banking, corporate, commercial, agriculture and forestry agricultural and institutional customers are serviced centrally. This organizational structure ensures comprehensive focus on customer services.

In terms of additional business segments, Südwestbank also operates a dedicated asset management business unit offering special consulting services, domestic and foreign payment transactions as well as real estate brokerage activities. As a complement to its own product offering, Südwestbank has established strategic partnerships with well-known German banks and insurance companies, focused on brokerage activities covering origination of installment loans, insurance and security products.

Südwestbank operates a network of 28 branches, eight self-service branches and three other ATM locations. The bank had 647 employees at December 31, 2016.

14.2 Strategic Rationale for the Acquisition

Focused in the economically strong southwestern Germany, the expertise, reputation and deep relationships with small and medium-sized businesses (*Mittelstand*) of Südwestbank make it an attractive partner to help BAWAG Group expand its footprint and customer base in Germany, serving as its beachhead in Germany for both organic and inorganic growth.

The following three key themes drive BAWAG Group's strategic rationale for the acquisition:

(1) *German beachhead and growth throughout the DACH region*: BAWAG Group views the acquisition of Südwestbank as a significant first step for future expansion in Germany and throughout the DACH region. BAWAG Group intends to combine its track record of driving organic growth and cost efficiency with Südwestbank's established business franchise, capitalizing also on the growth of Südwestbank in lending and deposit products, and wide range of strategic partnerships to increase revenues and reduce costs, while pursuing bolt on acquisitions to leverage Südwestbank's infrastructure.

(2) *Specific plan to improve earnings*: BAWAG Group plans to apply the principles of the initiatives that have allowed it to improve its own efficiency and performance to Südwestbank, which BAWAG Group believes will allow it to streamline Südwestbank's businesses and operations and improve efficiency. Qlick, easybank's newly established direct banking operation in Germany, which is planned to launch its operations in the fourth quarter 2017, will be able to leverage the operational infrastructure and expertise of Südwestbank, creating additional benefits and synergies.

(3) *Fully functional system & business platform*: Südwestbank currently operates a fully functional systems platform Agree 21, covering all key retail and corporate products, internal and external, front-end and operational interfaces. The system platform of Südwestbank is provided by Fiducia AG, a well-known German technology company with more than 1,000 banking customers. This technology platform, combined with Südwestbank's branch network, provides BAWAG Group with an opportunity to implement its strategy of offering simple, transparent and easy to understand products while driving efficiencies and savings. BAWAG Group has already established an active partnership and working relationship with Fiducia AG. It also involved Fiducia AG in its latest IT-related initiative, the aim of which is to ensure comprehensive coverage and full assessment of its technology strategy.

14.3 Integration and Transformation

The goal of the integration of Südwestbank is to position it for growth as quickly as possible with the objective of achieving 1-2% of the online loan origination volume in Germany. BAWAG Group believes that, despite its favorable position, Südwestbank has significant additional potential that can be tapped. Three themes have been identified as key to business transformation:

(1) *Streamline existing business lines & product offering*: As a starting point, BAWAG Group will conduct an in-depth profitability assessment at product, customer and business channel level. The goal of this exercise is to obtain a detailed analysis of Südwestbank's Day 1 profitability and capital usage. BAWAG Group aims to map out growth plans for high performance products and segments. At the same time, it seeks to identify low return segments and set the path for re-pricing and/or exit and related deleveraging, as well as a reduction in risk-weighted assets. In addition, BAWAG Group plans to achieve funding optimization through a focus on certain debt obligations typical in the German market (*Schuldscheine*).

(2) *Drive cost efficiency & technology investment*: BAWAG Group believes that, similar to its peers operating in the DACH region, Südwestbank has an opportunity to re-assess its cost structure and technology landscape in order to drive efficiencies, enhance profitability and capital adequacy. As part of the integration of the bank, BAWAG Group envisages undertaking a comprehensive transformation program similar to BAWAG Group's own program, reflecting also BAWAG Group's target of a Cost-Income Ratio of below 40% in the mid term.

(3) *Pursue bolt-on retail acquisitions*: BAWAG Group is evaluating multiple acquisition targets which would complement Südwestbank's product offering and business model and leverage Südwestbank's infrastructure. It believes that Südwestbank's retail franchise is underdeveloped, and could grow significantly through bolt-on acquisitions of platforms that offer products that broaden the current product offering of Südwestbank directed at retail customers. BAWAG Group believes that the following platforms and product areas would complement the existing Südwestbank franchise:

   - Consumer finance and credit card banks and/or portfolios
   - German building society banks
   - Targets providing suitable direct banking infrastructure, product offering and customer base which would complement both Südwestbank as well as the Qlick franchise (easybank's international brand)

14.4 Certain Effects in Connection with the Acquisition of Südwestbank

As part of the pre-closing process, BAWAG Group is currently working with the regulatory authorities to obtain the necessary approvals. Following key themes have been identified in terms of effects that the acquisition will have on BAWAG Group:

Governance: Following the acquisition, Südwestbank will continue to operate as a stand-alone regulated entity. However, BAWAG Group will ensure a stringent group steering approach. In addition to the implementation of the standards of BAWAG Group and decision processes according to the applicable laws, BAWAG Group is reviewing whether the introduction of internal models currently used by BAWAG Group would be appropriate for Südwestbank, e.g., the roll-out of an Internal Ratings-Based approach by 2020 (see "*15.6.1.3 Quantification of Credit Risk*"). BAWAG Group is also preparing the full integration of Südwestbank into its general steering process as of the completion of the acquisition.

Capital impact: The acquisition of Südwestbank will be financed from own funds. BAWAG Group currently expects a negative impact of approximately 3.10% on its CET1 ratio (Fully Loaded) from the acquisition. BAWAG Group expects to continue operating above a CET1 ratio (Fully Loaded) of 12% and thus meeting its target level.

Baseline profitability and return targets: BAWAG Group expects the acquisition of Südwestbank to be accretive from day one, i.e. from its completion. The bank is currently operating with a normalized return on equity baseline of approximately 4%, assuming a 12% CET1 ratio and normalized annual IFRS profit generation of € 25 to € 30 million. As part of the mid-term target setting, Südwestbank will be held accountable within the group for reaching BAWAG Group return standards, i.e., achieving mid to high teen RoTE (@12% CET1) levels.

Purchase price accounting adjustments: On the basis of the agreed purchase price mechanism, accounting adjustments in relation to the acquisition of badwill and the fair valuation of the acquired assets and liabilities are expected to be made upon completion of the acquisition. The exact scope and impact of these adjustments will be determined in the course of the closing preparations over the coming months.

15 RISK MANAGEMENT

15.1 Introduction

The principal risks and uncertainties to which BAWAG Group is exposed are set forth in "*3 Risk Factors*" of this Prospectus. The following sections describes the governance and organizational framework through which BAWAG Group manages and seeks to mitigate risks and quantitative information regarding BAWAG Group's exposure to certain risks for the six-month period ended June 30, 2017 and for the financial years 2016 and 2015.

15.2 Regulatory Framework

The operations of BAWAG Group are regulated and supervised by relevant authorities in each of the jurisdictions in which it conducts business, in particular in Austria, Germany and the United Kingdom. Such regulation, which is for the most part based on harmonized EU legislation, focuses on licensing, capital adequacy, liquidity, risk management, business conduct as well as organizational and reporting requirements.

Currently, BAWAG Group is regulated and supervised up to and including the level of PSH, which holds 100% of the shares in the Company. At or around Pricing, PSH will cease to be the majority shareholder of the Company. Therefore, BAWAG Group will, in the future, be regulated and supervised up to and including the level of the Company.

The SSM was established by Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions ("**SSM Regulation**") and began operating in November 2014. Under the SSM, PSH (which, as noted above will cease to be the majority shareholder at or around Pricing), the Company, BAWAG P.S.K., easybank AG, BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, IMMO-BANK Aktiengesellschaft and start:bausparkasse AG have been identified as significant supervised entities. Accordingly, the ECB acts as the primary supervisor of BAWAG Group and monitors its compliance with the BWG and other applicable laws and regulations, including, in particular, the CRR. The ECB is assisted in its supervision by the FMA and the OeNB, all being part of the JST (Joint Supervisory Team) which has been established for BAWAG Group within the SSM. JSTs have been established for each significant group or institution. The JSTs are formed of staff of the ECB and the relevant national supervisory authorities and central banks. They carry out the ongoing supervision of significant institutions, their main task being conducting the annual supervisory review and evaluation process (SREP).

The ECB, the FMA and the OeNB assess BAWAG Group's capacity to assume risk in several ways, which are described in more detail in Section "*17 Regulation and Supervision*" of this Prospectus.

BAWAG Group qualifies as a group of credit institutions (*Kreditinstitutsgruppe*) within the meaning of Section 30 BWG. Therefore, in addition to the risk management and risk control systems which are required for each single credit institution of the group, BAWAG Group has also established a group-wide risk management and risk control system. Within BAWAG Group, BAWAG P.S.K. has been determined to be the superordinate credit institution (*übergeordnetes Kreditinstitut*) of the group of credit institutions within the meaning of Section 30 para. 5 BWG. As a consequence, BAWAG P.S.K. is responsible for the group-wide risk management of BAWAG Group.

15.3 Risk Management Principles

The core principles of BAWAG Group's risk management framework and strategy, outlined by the management board of BAWAG P.S.K., are to seek to maintain a conservative low-risk balance sheet with strong capital and low levels of leverage, focusing on stable economies, and profitable and disciplined growth defined on a risk-adjusted return basis.

One important element of BAWAG Group's risk management framework is its group-wide internal steering mechanisms, particularly the internal capital adequacy assessment process (ICAAP) as well as the internal liquidity adequacy assessment process ("**ILAAP**") required under the BWG and the framework established by the CRD IV/CRR. BAWAG Group uses a single data architecture for both its risk and finance functions to ensure that both groups access the same data and categorize segments and products on a consistent basis.

Furthermore, BAWAG Group has established a risk management and Pillar 2 framework which currently encompasses:

- A risk culture and governance structure with defined responsibilities for individuals and groups within the Company (committees, information flows etc.);

- Limitations on risk exposures, which are embedded into BAWAG Group's portfolio steering framework which defines BAWAG Group's risk appetite;
- Analysis of risk from both a going concern perspective and a liquidation (or "gone-concern") perspective, supporting group-wide steering over both a three-year planning horizon while also focusing on execution of the existing plan until year-end;
- Risk measurement and validation techniques under Pillar 2, covering all material financial risk types as well as relevant non-financial risks;
- A diversified capital structure with multiple sources of liquidity;
- A self-assessment process which is conducted with involvement of all divisions within BAWAG Group;
- A stress testing framework, allowing the targeted stressing of BAWAG Group along its business model and its portfolio characteristics; and
- A group-wide risk planning process based on detailed risk planning guidelines.

Furthermore, BAWAG Group uses the three-lines-of-defense model in order to ensure proactive identification and management of risks.

The **first line of defense** are the daily risk management processes established in the business units applying internal controls to ensure operation within the agreed policies and risk limits. The retail and corporate market divisions (Retail Sales division for domestic retail, International Mortgages division for international retail, Austrian Corporate & Public Sector division for domestic corporates, International Corporates division for international corporates, and International Commercial Real Estate division for international commercial real estate) manage credit risk. Broader strategic market risks are managed on a group-wide basis, taking into consideration equity allocation and relevant limit systems by applying all investment guidelines based upon the risk strategy.

The **second line of defense** is composed of the strategic risk controlling units and non-financial risk management. These units and the non-financial risk management provide guidance and direction for both the first line of defense as well as the operative risk management divisions (described in "*15.4.3.4 Credit Risk Management Division*" and "*15.4.3.5 European Retail Risk Management Division*" below), develop the entire risk management framework and are responsible for the identification, assessment, controlling, monitoring and reporting of the risks to which BAWAG Group is exposed. The two operative credit risk divisions provide functional risk management expertise for corporate, institutional, retail and small business customers. The risk reporting and monitoring processes, including the consistent calculation and aggregation of the individual risk metrics, are coordinated by the division Enterprise Risk Management ("**Enterprise Risk Management Division**"). The organization and responsibilities of the Enterprise Risk Management Division is described further under "*15.4.3.1 Enterprise Risk Management Division*" below. All potential strategic decisions and broader policy decisions regarding additional risk taking are analyzed in detail within the risk management organization. The second line of defense also includes non-financial risk management audits, which include anti-money laundering, securities compliance as well as anti-corruption and other regulatory and reputational risks. Further, the second line of defense is involved in the development of internal control measures regarding cyber security compliance as well as data quality. In addition to the internal control system (ICS), each division performs an annual risk control self-assessment, where the key operational risks are identified and measured, and corresponding mitigating internal controls are defined.

Internal audit as the **third line of defense** performs independent reviews of the first and second lines of defense across all functions and business areas. Internal audit challenges the entire risk processes (risk taking, risk management and risk control) and assesses the effectiveness of risk management and internal control systems as well as the adequacy of capital and liquidity management. The annual audit plan is based on a long term audit universe taking into consideration the present risk situation (risk-oriented approach). Potential findings or improvements are stated within the internal audit reports, including specified implementation deadlines.

15.4 Communication and Escalation of Risks (Risk Governance)

BAWAG Group has established a group-wide risk management and risk control system. Within BAWAG Group, BAWAG P.S.K. is responsible for the group-wide risk management of BAWAG Group.

Within BAWAG Group, several layers of risk management provide a cohesive risk governance organization.

15.4.1 Supervisory Board of BAWAG P.S.K.

The supervisory board of BAWAG P.S.K. is responsible for supervising the management board of BAWAG P.S.K. and the fulfillment by the management board members of their respective duties under applicable corporate and regulatory laws. The supervisory board of BAWAG P.S.K. is regularly, at least quarterly, informed on BAWAG Group's risk situation, risk management and risk controlling, including capital and risk planning, setting of the risk strategy and certain other risk-related topics.

The supervisory board of BAWAG P.S.K. has established the following committees which are competent to handle specific risk-related tasks in accordance with regulatory requirements under the BWG:

- The Risk and Credit Committee advises the supervisory board of BAWAG P.S.K. regarding the current and future risk appetite and risk strategy of BAWAG Group as well as the monitoring of the implementation of this risk strategy in connection with the governance, monitoring and limiting of risks, equity resources and liquidity and monitors on a regular basis the effectiveness and the efficiency of risk management (including risk control, risk policies, management reporting on risk, risk strategy and risk appetite), and the compliance with legal and regulatory requirements. The Risk and Credit Committee is composed of six members of the supervisory board of BAWAG P.S.K.
- The audit and compliance committee ("**Audit and Compliance Committee**") (see "*21.3.4.1 Audit and Compliance Committee*" below for further details), advises the supervisory board of BAWAG P.S.K. regarding audit and compliance matters. It reviews annual financial statements (consolidated statements), proposes the appropriation of profits, the management report and the corporate governance report of BAWAG P.S.K. and evaluates the effectiveness of the internal control systems.

15.4.2 Management Board of BAWAG P.S.K.

The management board of BAWAG P.S.K. is responsible for managing the risks of BAWAG Group in accordance with applicable laws, the articles of association of BAWAG P.S.K. as well as the rules of procedures of the supervisory board and the management board.

The management board of BAWAG P.S.K. has established the following meetings and committees for the main risk topics that arise within BAWAG P.S.K. as well as BAWAG Group:

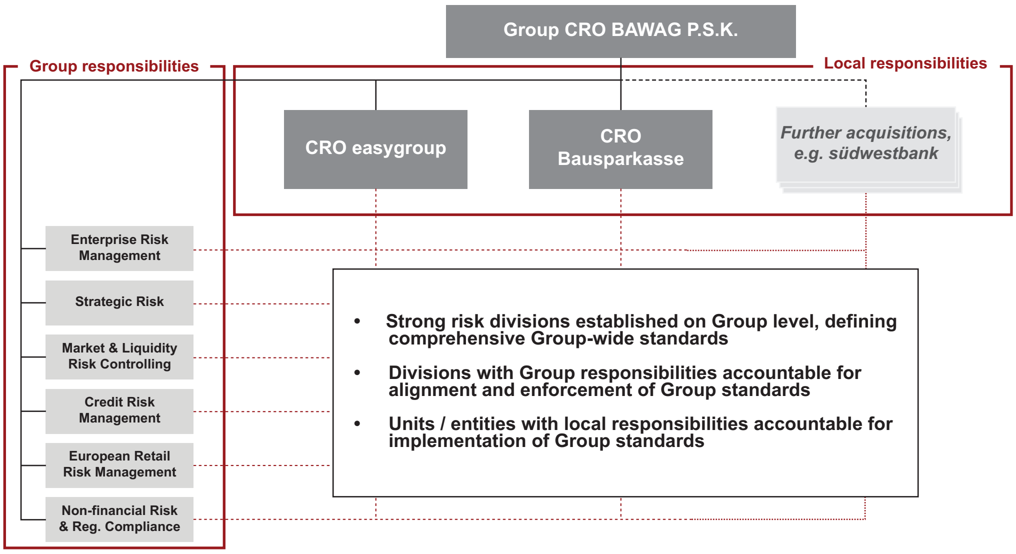
- The Strategic Asset Liability Committee (SALCO) is a monthly meeting which serves as the key decision making body for liquidity risk management as well as an escalation body in the event that individual market or liquidity limits are exceeded or regulatory requirements are not met. The SALCO is chaired by the CEO of BAWAG P.S.K. Its main tasks are the decision-making on the investment of equity and other non-interest-earning assets and the allocation of market risk limits to the banking books as well as their regular monitoring. It also determines the parameters for measuring the liquidity risk and monitors the management of liquidity, including the approval of liquidity measures.
- The Enterprise Risk Meeting is a monthly risk meeting of all members of the management board of BAWAG P.S.K. and members of BAWAG P.S.K.'s senior management. The Enterprise Risk Meeting is chaired by the CEO of BAWAG P.S.K. It is the central forum for the risk steering of BAWAG Group and the review and decision of material risk topics. It takes fundamental risk decisions, such as the approval of the risk strategy, the determination of the risk appetite, material and immaterial changes to models for the Internal Ratings-Based ("**IRB**") approach (provided that material changes to such models also have to be approved by the regulators), and, if needed, makes recommendations to the supervisory board of BAWAG P.S.K. on changes and modifications. In addition, the Enterprise Risk Meeting reviews and approves underwriting guidelines for all business units. It also reviews and discusses the monthly group risk report and the monthly capital report.
- The Credit Approval Committee, chaired by the Chief Risk Officer ("**CRO**") of BAWAG P.S.K., is a weekly meeting of all members of the management board of BAWAG P.S.K. and members of BAWAG P.S.K.'s senior management responsible for approving loan applications which have been brought to the Credit Approval Committee's attention in accordance with the competence and power regulation (KPO) of BAWAG P.S.K. Pursuant to the competence and power regulation, the Credit Approval Committee decides, *inter alia*, on the granting of commercial loans (subject to different authorization levels depending on loan volume and rating of the respective customer) as well as on all transactions of the division International Business (irrespective of the specific exposure).

The following chart provides an overview of the committees of the management board and the supervisory board of BAWAG P.S.K. that are central to the management of risk within BAWAG Group:

Source: Company information.

15.4.3 Risk Divisions

The following graph provides the group governance along matrix organization, requiring alignment of group guidance between group risk divisions and local CROs and risk units.



Source: Company information.

The CRO, as a member of the management board of BAWAG P.S.K., is responsible for all units covering the risk functions described below. The CRO monitors the activities of the units responsible for these functions and regularly informs the management board of the risk position of BAWAG Group.

Under the responsibility of the CRO, the following risk divisions are concentrated:

Framework	Responsibilities
1 Enterprise Risk Management	• Portfolio analysis & stress testing (scenarios, reverse stress testing and sensitivities on quarterly basis) • RWA control & steering, credit risk reporting • Overseeing Regulatory Office – compliance with standards, new requirements, business impact, etc.
2 Strategic Risk	• Model development for all relevant risk types (encompassing all IRB models) • Validation for all internal models, encompassing all risk types • Strategic risk management projects (e.g. integration of future acquisitions, driving strategic initiatives)
3 Market & Liquidity Risk Controlling	• Market risk management & valuation – i.e. interest rate risk, credit spreads, etc. • Liquidity risk control – ensuring liquidity buffers sufficient, liquidity stress testing, etc.
4 Credit Risk Management	• Credit underwriting & monitoring of commercial and retail exposures (including portfolio steering) • Workout and collection of non-performing exposures across all segments and entities • Credit governance & support
5 European Retail Risk Management	• Portfolio management of international retail portfolios[1] • Risk analytics, focus on Western Europe • Coordination of portfolio servicing partners ... quality assurance
6 Non-Financial Risk Management & Regulatory Compliance	• AML & Anti Fraud Prevention | Data Protection & Information Security • Compliance Office & Complaint Management • Operational Risk & Internal Control System

1) Where BAWAG Group has established a complete look-through based on CRR.

Source: Company information.

The six risk management divisions periodically report to the committees at management board level (see "*15.4.2 Management Board of BAWAG P.S.K.*").

15.4.3.1 Enterprise Risk Management Division

The Enterprise Risk Management Division is responsible for the bank-wide risk management which covers the internal capital adequacy assessment process, stress testing and regulatory requirements regarding the yearly supervisory review and evaluation process (SREP). In addition, the Enterprise Risk Management Division is responsible for Pillar 1 RWA calculation as well as all credit-risk-related internal and external reporting topics.

The core focus areas are:

- Supervisory review and evaluation process
- Internal capital adequacy assessment process (ICAAP)
- Risk self-assessment, risk strategy and risk governance
- Pillar 1 and Pillar 2 RWA calculation
- Pillar 3 disclosure
- Group-wide portfolio steering framework (Pillar 2)
- Internal and external stress testing
- External reporting (business reports, ECB reporting, OeNB/FMA-reporting)
- Internal reporting (generation of the Group Risk Report, special reports on focus areas and segments)
- Calculation of the provisions for incurred but not reported ("**IBNR**") losses

Furthermore, the Regulatory Office of BAWAG Group is located in the Enterprise Risk Management Division, being the single point of contact for the regulators for all compliance and regulatory topics.

15.4.3.2 Strategic Risk Division

The division Strategic Risk ("**Strategic Risk Division**") is in general responsible for all credit-risk-related modeling and validation topics. Special focus is placed on all topics in relation to the Internal Ratings-Based approach as well as to credit-risk-related IFRS 9 topics. Within the Strategic Risk Division, risks are considered from an analytical perspective and risk measurement and management tools are developed.

The core focus areas are:

- Methodological model development in the credit risk area

- Development and Monitoring of probability of default ("**PD**") models (scoring and rating systems) as well as development of methodology for risk parameters (for example loss given default ("**LGD**") and credit conversion factor ("**CCF**")) for BAWAG Group's portfolio
- Independent validation of all risk models (covering also other risk types such as Interest Rate Risk in the Banking Book (IRRBB) and credit spread risk); the validation function is embedded within a separate independent unit with direct reporting line to the head of the Strategic Risk Division
- Risk-related ad-hoc analyses
- Assurance of compliance of the credit risk models with the legal requirements and Basel II / III
- Response to regulatory audits regarding BAWAG Group's credit risk models

In addition to the modelling and validation topics, the Strategic Risk Division is also responsible for the main risk projects like "BCBS239" (comprehensive Basel standard on risk data aggregation and reporting, which BAWAG Group needs to fulfill by the first quarter 2019) and the implementation of IFRS 9. A separate department within the Strategic Risk Division has been established that is responsible for the coordination of risk topics across all divisions regarding acquisitions (including due diligence and integration).

15.4.3.3 Market & Liquidity Risk Controlling Division

The division Market & Liquidity Risk Controlling is responsible for the quantification and monitoring of market risks both within the framework of the internal control system as well as regulatory requirements, the evaluation of all financial instruments for market risks, as well as the maintenance and further development of the group-wide treasury and risk systems.

The key responsibilities of the division Market & Liquidity Risk Controlling are:

- Market risk management within the context of the Asset Liability Management process;
- Limitation of market risk according to the risk capital allocation including risk self-assessment;
- Monitoring and analysis of market risk (especially interest, credit spread, and basis spread risks) in the banking and trading book;
- Internal and external reporting of market and liquidity risk;
- Net interest income simulation/scenario calculations;
- Development of methodologies and standards for the measurement of market risk including data quality improvements and development of stress scenarios;
- Monitoring and controlling of measurement parameters in the trading systems for the valuation of Treasury positions;
- Limit allocation, monitoring and reporting of utilization of counterparty credit-risk and settlement limits including netting and collateral-agreements;
- Quantification of and limit setting for liquidity risk (risk of illiquidity, structural liquidity risk, basis spread risk from foreign exchange ("**FX**") positions, market liquidity risk);
- Development of methodologies for and quantification of liquidity risks within the framework for the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP);
- Monitoring, reporting and development of liquidity early warning indicators; and
- Modeling liquidity replication assumptions.

15.4.3.4 Credit Risk Management Division

The division Credit Risk Management ("**Credit Risk Management Division**") manages operative credit risk for both retail clients and corporate and institutional accounts within BAWAG Group. The Credit Risk Management Division directly reports to the CRO. In daily business credit risk is managed in cooperation between relationship and risk management based on four-eye principle and assigned authorities. However, final approval on new transactions, roll-overs, prolongations can only be given by risk management and/or the respective approval levels. Prior to January 1, 2017, credit risk retail clients and corporate and institutional accounts were separately managed in two separate divisions.

The credit risk managed by the Credit Risk Management Division comprises the following lines of business:

- Domestic and International Corporates
- Small and Medium Enterprises (SME)
- Commercial Real Estate and Structured Finance

- Financial Institutions
- Public Sector
- Sovereigns, Sub-sovereigns and Supranational Institutions
- Participations
- Private Customers and Small Commercial / Business Customers
- Social Housing Companies (Subsidized Residential Buildings)

The Credit Risk Management Division is responsible for the performing exposures as well as for the sub- and non-performing exposures, which are primarily managed by the department Corporate Restructuring and Workout (CMW) within the Credit Risk Management Division.

Furthermore, the following topics are located within the responsibility of the Credit Risk Management Division:

- Retail analytics for the Austrian retail book
- Corporate balance sheet analysis
- Retail real estate valuation
- Commercial real estate valuation

15.4.3.5 European Retail Risk Management Division

The division European Retail Risk Management ("**European Retail Risk Management Division**") is responsible for providing risk management oversight with regards to non-Austrian retail portfolios. Key responsibilities of this division are:

- Portfolio management of all international mortgage loan portfolios outside Austria and Germany.
- Provide oversight of third party servicers' operational performance and lead day to day servicer management.
- Lead risk oversight and due diligence of new retail portfolio / platform acquisitions outside Austria and Germany.
- Support the business with risk evaluation of potential new business opportunities (lending platforms, origination / cross sell opportunities).
- Support regulatory engagement / requests relating to the retail portfolios outside Austria and Germany.
- Build and deploy risk portfolio management capabilities such as management information, governance, controls and risk mitigation strategies for non-Austrian retail portfolios.
- Work with other divisions/units to ensure BAWAG Group's standards and requirements are adequately reflected in servicing agreements with third party servicers.

15.4.3.6 Non-Financial Risk Management and Regulatory Compliance Division

As a second line of defense function the division Non-Financial Risk Management and Regulatory Compliance ("**Non-Financial Risk and Regulatory Compliance Division**") assists the management board in identifying and managing operational risks and significant regulatory compliance risks. A comprehensive reporting on non-financial risk and regulatory compliance topics has been established.

The Non-Financial Risk and Regulatory Compliance Division actively educates and supports the business in managing non-financial risks. Such non-financial risks comprise, amongst other, operational risks, cyber risks, reputational risks, compliance risk and fraud.

Core tasks of the Non-Financial Risk and Regulatory Compliance Division are:

- Compliance with anti-money laundering laws, sanctions rules, gift and anticorruption rules
- Anti-fraud management
- Compliance with FATCA / Common Reporting Standards (CRS)
- Compliance with securities regulations
- Data protection office & information security & business continuity management
- Complaint management
- Operational risk and internal control system

The Non-Financial Risk and Regulatory Compliance Division is part of the CRO function. In their role as compliance officer and anti-money laundering officer, the heads of the Non-Financial Risk and Regulatory Compliance Division report directly to the management board of BAWAG P.S.K. as well as to the Audit and Compliance Committee of BAWAG P.S.K.'s supervisory board.

15.4.4 Additional Layers

15.4.4.1 Portfolio Steering Committee

The Portfolio Steering Committee (PSC) is responsible for the tactical allocation of capital. The members of the Portfolio Steering Committee are classified as follows:

- Voting members:
  - Division Head Enterprise Risk Management Division as chairman
  - Department Head ICAAP & Reporting (EMI) as deputy chairman
  - Division Head Credit Risk Management Division
  - Division Head European Retail Risk Management Division
  - Division Head Austrian Corporate & Public Sector (CB)
  - Division Head International Commercial Real Estate (IX)
  - Division Head International Corporates (IC)
  - Division Head Austrian Retail Business (FB)
  - Division Head Treasury Markets Division
  - Division Head Financial Planning & Analysis
  - Division Head Accounting / Participations Division
- Non-voting members:
  - Head of Portfolio Analysis and Stress Test (EMIP), responsible for the group-wide portfolio steering framework of the Enterprise Risk Management Division; acting also as secretary of the Portfolio Steering Committee

The tactical allocation of capital is a continuous process that covers all changes to the capital and exposure limits in place. The main objective of the Portfolio Steering Committee is to ensure effective oversight and control over the capital allocation and capital utilization levels and to inform strategic decisions on such topics or, alternatively, to define recommendations for the Enterprise Risk Meeting at management board level. In detail the Portfolio Steering Committee is in charge of the following major items:

- Monitoring of capital allocation and capital utilization at all levels
- Approval of the standard portfolio steering framework report
- Assessment of the portfolio dynamics and the current utilization of the assigned limits
- Assessment of the needs and opportunities for re-allocation of capital within the capital allocation hierarchy
- Tactical capital allocation, within the restrictions defined by the portfolio steering framework policy
- Assessment of the impact of relevant prospective credit decisions requiring capital re-allocation
- Assessment of the status of risk concentrations in BAWAG Group's portfolio, across all relevant risk categories
- Monitoring of the single-name concentrations for credit risk, including the large capital consumers and the Outlier List
- Prioritization and assessment of the enhancements to the portfolio steering framework to be sought over time
- Definition and evaluation of in-depth analyses regarding specific discussion topics related to the core responsibilities of the Committee
- Definition of the recommend action/mitigation plan for Enterprise Risk Meeting approval where necessary

In principle, the competence of the Portfolio Steering Committee with regards to allocation of capital is limited to € 40 million. Capital re-allocations above this figure need to be decided by the Enterprise Risk Meeting on the basis of an explicit recommendation by the Portfolio Steering Committee. In case of any need for adjusting the capital allocation on Levels 0-2 during the year, the Portfolio Steering Committee must submit a formal application to the Enterprise Risk Meeting.

Portfolio Steering Committee meetings are held on a quarterly basis. Nevertheless, the Portfolio Steering Committee report is produced and submitted to the Portfolio Steering Committee members on a monthly basis. The monthly reporting includes the updated capital limits and utilization figures for the complete capital allocation structure. Additionally, for credit risk, the reporting includes a detailed breakdown of the single-name, currency and collateral concentrations.

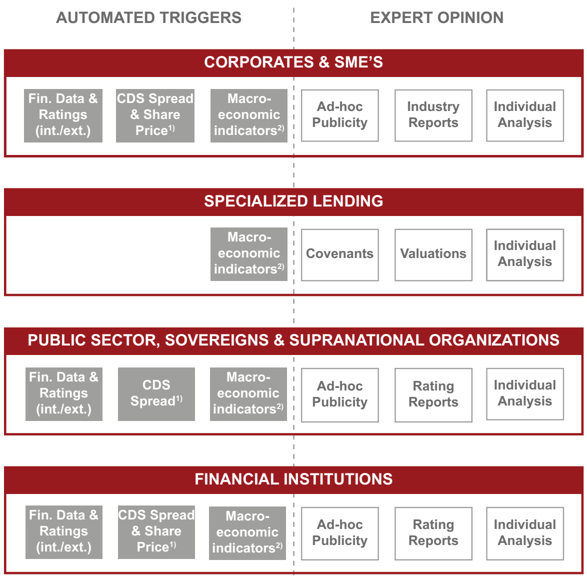
15.4.4.2 Watch Loan Committee

The Watch Loan Committee is responsible for the close monitoring of exposures, which were added to the so called Watch Loan List. The members of the Watch Loan Committee are defined as follows:

- Division Head Credit Risk Management Division as chairman
- Department Head Restructuring & Workout (CMW) as deputy chairman
- Division Head International Corporate Business (IC) for exposures to international corporate business clients only
- Division Head International Real Estate Business (IX) for exposures relating to international real estate business only
- Division Head International Mortgages & Special Situations (IM) for exposures relating to international retail mortgage and special situations accounts only
- Division Head Austrian Corporate & Public Sector (CB) for exposures to Austrian corporate and public sector clients only
- Division Head Austrian Retail Business (FB) for exposures relating to Austrian retail business only
- Division Head Treasury Markets Division for limits relating to the treasury markets only

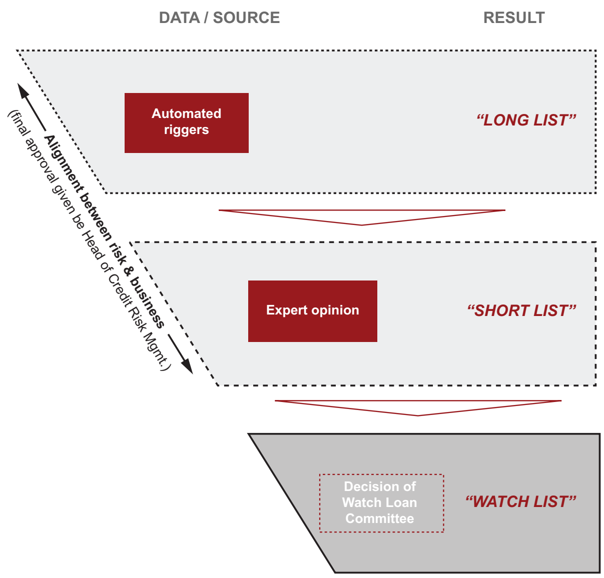
Exposures can be put on the Watch Loan List if the outstanding amount of the relevant exposure equals or exceeds, in case of a single exposure, € 1m or, in case of exposures to a combined customer group, € 2m. The major additions to the Watch Loan List result from exposures to clients which are active in the oil & gas industry. The Watch Loan Committee focuses on clients where levers exist to mitigate risk. The following figures provide an overview on the early warning signals and triggers per corporate customer segment:

Early warning signals / triggers



1) If available / publicly listed 2) based on economic statistics of key geographies

Compilation and approval of the watch list



Source: Company information.

The Watch Loan Committee decides upon

- Risk mitigating measures and action plans (including responsible units) for single exposures of the Watch Loan List
- Status reports on watch list exposures
- Addition of new exposures to the Watch Loan List due to specific concentration risks (such as e.g. risky industries or sub-portfolios)

15.4.4.3 Capital Management Meeting

The Capital Management Meeting is responsible for the monitoring Pillar 1 and Pillar 2 capital figures, as well as Pillar 1 RWAs. The members of the Capital Management Meeting are defined as follows:

- Department Head Asset Liability Management (TMA) as chairman,
- Department Head Liquidity & Funding (TML) as deputy chairman,
- Division Head Accounting / Participations Division,
- Division Head Enterprise Risk Management Division.

The Capital Management Meeting monitors:

- regulatory capital ratios and risk weighted assets (including available forecast data)
- observance of capital warning levels according to capital contingency plan
- expected regulatory changes related to capital and risk weighted assets
- observance of internal capital adequacy assessment process (ICAAP) limits and discussion about possible changes
- compliance with indicators of Group Recovery Plan

Moreover the committee reviews and recommends possible measures to improve capital ratios; finally the committee distributes the Capital Report to the whole management board via the Enterprise Risk Meeting.

15.4.4.4 Stress Test Committee

The Stress Test Committee (STC) provides the central coordination of the stress testing processes at BAWAG Group level and is chaired by the head of the Enterprise Risk Management Division, with heads of other relevant divisions as further members. The main objective is to ensure effective oversight and control over the operative proceedings of all stress test analyses and to implement strategic decisions.

The scope of activity includes all cross-divisional stress test or similar economic analyses and all such analyses requiring management board approval.

For the analyses in scope, the Stress Test Committee is in charge of the following items:

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

The members of the Stress Test Committee are classified as follows:

- Voting members:
  - Division Head Enterprise Risk Management Division as chairman
  - Department Head ICAAP & Reporting (EMI) as deputy chairman
  - Division Head Non-Financial Risk and Regulatory Compliance Division

- Division Head Financial Planning & Analysis Division
  - Division Head Accounting / Participations Division
  - Division Head of the division Market & Liquidity Risk Controlling
  - Department Head Market Risk Management (MRM)
  - Department Head Liquidity & Funding (TML)
- Non-voting members:
  - Head of Portfolio Analysis and Stress Test (EMIP), responsible for Stress Testing of the Enterprise Risk Management Division; acting also as secretary of the Stress Test Committee

The process for conducting the group-wide stress tests generally consists of five steps:

- Stress test set-up (definition of baseline and scenarios);
- Stress test run;
- Assessment and recommendation;
- Reporting and discussion within the Stress Test Committee; and
- Presentation by the Enterprise Risk Management Division within the Enterprise Risk Meeting and approval by the management board of BAWAG P.S.K. within the Enterprise Risk Meeting.

15.5 Risk Management Framework of BAWAG Group

15.5.1 Risk Strategy and Risk Planning Process

BAWAG Group conducts an annual integrated strategic planning process that lays out the development of its future strategic direction as a group and for its business segments. The strategic planning process has three components: a business strategy, a finance strategy and a risk strategy. The business strategy is based on a three-year plan of the business segments of BAWAG Group and represents the detailed strategic plan for each business segment for the respective financial year. The finance strategy relates to capital, funding and profitability planning and annual targets for BAWAG Group. The risk strategy is the central risk document of BAWAG Group relating the business strategy and the pre-defined risk appetite with the portfolio steering elements of BAWAG Group. It contains the core steering mechanisms for the internal capital adequacy assessment process, the internal liquidity adequacy assessment process and the risk management processes for the respective year at the level of BAWAG Group. The risk strategy is aligned with the three-year business plan and is updated at least on an annual basis. The risk strategy is defined under the lead of the Enterprise Risk Management Division, with support from the other risk divisions (which are described in "*15.4.3 Risk Divisions*"). It includes the risk appetite and the risk-bearing capacity of BAWAG Group for the long-term perspective and defines the target risk profile of BAWAG Group based on the results of the risk self-assessment.

Within the risk strategy, the overall risk appetite serves as a boundary condition and represents BAWAG Group's intention to use a limited amount of its available internal capital based on the risk assessment, including consideration of regulatory and economic capital availability, liquidity position and profitability. According to the defined risk appetite, capital limits are allocated to the specific risk and sub-risk categories on the basis of the available internal capital. In addition, BAWAG Group has sub-risk strategies for each business segment in place which further detail elements of the risk strategy on the country, the industry and the product level.

The annual strategic planning process is initiated in accordance with BAWAG Group's "risk planning guidelines" which outline the focus and outlook on core segments, markets and industries and also provide suggestions on potential new markets. In addition to the risk planning guidelines, results of stress tests and sensitivity analysis are taken into consideration for the definition of BAWAG Group's risk appetite, limit setting and the capital allocation for the successive year.

The determination of the overall risk appetite as well as the capital allocation and limitation process run in parallel to the planning and budgeting process, which is initiated with a risk statement on the projected development of the core business segments for the next three years. Therefore, possible effects of the capital, liquidity and profit planning procedures are taken into account in the risk strategy (and vice versa).

The resulting risk strategy is presented to the management board of BAWAG P.S.K. for discussion and approval. The final risk strategy is presented to the supervisory board of BAWAG P.S.K. and the Risk and Credit Committee at least annually. The final risk strategy is then approved by the supervisory board of BAWAG P.S.K.

The strategic planning process of BAWAG Group is composed of two main phases, namely the target setting process and the planning process.

15.5.1.1 Target-setting Process

The target-setting process is initiated together with the forecasting in June of each year, based on information as of May of that year. The core planning assumptions for the next three years (risk planning guidelines, interest and foreign exchange environment, macroeconomic data, *etc.*) are discussed and defined top-down. For the sequential planning packages, a bottom-up approach is established based on the following process:

- Each reportable segment (BAWAG P.S.K. Retail, easygroup, DACH Corporates & Public, International Business and Treasury Services & Markets) plans its volumes under consideration of the risk planning guidelines, yields, margins and net commission income per product on monthly basis for three years.
- Specific central positions are planned in parallel (dividend income, other operating income, gains and losses and operating expenses).
- The Financial Planning & Analysis Division performs quality and consistency checks of the delivered plans, calculates additional parameters in standardized templates and inserts the data into a central planning matrix. The data is then further aggregated to establish a full reporting package consisting of profits and losses, balance sheets on individual entity level (including on an Austrian GAAP basis for BAWAG P.S.K.), and group levels to allow other stakeholders to start their planning.
- The next steps involve the planning of the following elements in successive order, as these elements build upon each other:
  - Regulatory charges, loan loss provisions ("**LLP**") and risk-weighted assets;
  - Funding (closing of gaps);
  - Tax; and
  - Capital.

The results of the target setting are discussed with and challenged by the CFO and the other members of the management board of BAWAG P.S.K. and new targets and measures are developed and agreed upon.

As plan figures are not revised during the year, any interim changes (including changes resulting from acquisitions) do not alter the plan.

15.5.1.2 Planning Process

Based on the target-setting process, a detailed planning process, following the same structural approach, is initiated. The planning process includes a full closing of the balance sheet under consideration of assumed strategic initiatives. The planning process is comprised of the following elements:

- Detailed volume / revenue planning process on a monthly basis (per segment per product) for all business segments including all subsidiaries considering updated assumptions (current rates, macroeconomic factors, results and assumed strategic initiatives from target setting)
- Detailed cost planning per management board member area as well as per business segment, followed by application of cost allocation mechanism to be able to show costs on business segment level
- Closing of balance sheet including all necessary funding measures and profit and loss impact
- Capital and risk planning based on inputs from revenue planning and closing of balance sheets
- Aggregation of all planning information in the data matrix in same format as reporting of actuals for all consolidation levels
- Check of results with stakeholders and set up of reporting pages for management board and supervisory board
- Approval by management board and supervisory board
- Communication to all budget responsibles

The plan is approved by both the management board and the supervisory board of BAWAG P.S.K. After approval, the relevant planning figures are communicated internally to all persons with budget responsibility.

15.5.2 Risk Self-Assessment

BAWAG Group has established a risk self-assessment process as part of its risk management framework to monitor the risks facing BAWAG Group on an ongoing basis and to identify and reflect such risks in its processes and steering mechanisms.

The risk self-assessment, which represents a core element for a sound and comprehensive capital allocation, is conducted on an annual basis in parallel to the risk planning process. It provides an overview of BAWAG Group's risk exposure and the risk management of the individual risk types by using quantitative and qualitative evaluation methods. The risk self-assessment evaluates all forms of potential risks arising in connection with the implementation of the business strategy with respect to their materiality and their impact on BAWAG Group as well as the ability of existing risk management procedures to address them. The risk self-assessment process also uses a detailed analysis of the applicable regulatory requirements.

This risk self-assessment process is based on an internal risk catalogue. The specific risk catalogue is continuously reviewed, updated and discussed by multiple divisions of BAWAG Group to ensure a proper standardized quantitative as well as expert assessment of materiality of the risks. In particular, the responsible divisions and departments are asked to evaluate the potential risks in terms of whether the group could have a potential loss resulting in a change of BAWAG Group's profitability. BAWAG Group's senior management is involved in this process. BAWAG Group's senior management determines whether significant changes regarding BAWAG Group's operating (as well as regulatory) environment are expected. Risks and risk concentrations that have been identified as material are specified in the risk self-assessment and are considered in the related risk-bearing capacity and strategy process.

All organizational units of BAWAG Group are involved in the identification and classification of the risks, and the Enterprise Risk Management Division is responsible for coordinating the inputs, consolidating the individual feedbacks and reviewing whether all potential risks have been considered in the annual update of the risk self-assessment. The final risk self-assessment is submitted on an annual basis to the management board of BAWAG P.S.K. for approval.

15.5.3 Internal Capital Adequacy Assessment Process (ICAAP)

The BWG and the CRR/CRD IV framework requires banks to have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which banks are or might be exposed. On this basis, BAWAG P.S.K. has established an internal capital adequacy assessment process (ICAAP) at the level of BAWAG Group in accordance with Section 39a BWG, the OeNB's Guidelines on Bank-Wide Risk Management (ICAAP Guidelines), the ECB's supervisory expectations on ICAAP published in January 2016 and the first draft of the ECB's SSM Guide on ICAAP published in February 2017.

The purpose of the group-wide steering process, and in particular the internal capital adequacy assessment process (ICAAP), is to develop, establish, maintain and enhance internal processes and systems that are intended to ensure adequate capital and liquidity in the long term taking into account all material risks. As a result, the internal capital adequacy assessment process (ICAAP) and the group-wide steering processes encompass all processes and actions to:

- appropriately identify, measure, evaluate and manage risks;
- use and further develop suitable risk management systems;
- appropriately allocate internal capital proportional to the risk profile; and
- establish and assure internal capital adequacy.

In addition, comprehensive bank-wide stress tests must be and are conducted at regular intervals to guarantee adequate internal capital at all times (see "*15.5.6 Stress-testing*" below). The group-wide processes (particularly the capital allocation and limitation processes) run in parallel to the planning and budgeting processes and are closely connected to those processes.

The elements of the internal capital adequacy assessment process (ICAAP), the methods used by BAWAG P.S.K. for such process in relation to the BAWAG Group and the relevant figures are described in more detail below.

15.5.3.1 Risk-bearing Capacity

BAWAG Group has established two steering circles in accordance with the legal requirements: (1) a gone-concern or liquidation approach (also referred to as the 'economic steering cycle' or 'economic risk-bearing capacity') and (2) a going-concern approach (also referred to as the 'P&L risk-bearing capacity').

The main focus of the economic steering cycle is on hedging the exposure of BAWAG Group to its lenders (*e.g.*, the holders of bonds and the holders of savings accounts). The goal is to ensure that no public funds have to be used to save BAWAG Group within an adverse scenario. Such adverse scenario implies a liquidation perspective. A confidence level of 99.9% is thus set for the calculation of the economic risk-bearing capacity (in other terms, on the basis of the available statistics, the capital held by BAWAG Group would not be sufficient to cover all resulting losses in 0.1% of all scenarios only). As the internal capital in this scenario is meant to secure the claims of the creditors of BAWAG Group, all internal capital items are available to cover potential losses, including those which would not be accessible for the fulfillment of the going-concern condition. The internal capital from a liquidation perspective is made up of the following components:

Capital component	**Description**	**June 30, 2017**	**December 31, 2016**	**December 31, 2015**
			(in € million)	
Tangible CRR equity	IFRS equity according to CRR scope of consolidation less intangible assets and goodwill.	3,016[1]	2,768[3]	2,627
Tier 2 capital	Subordinated capital flows into the internal capital according to the respective IFRS book values – however with no account taken of the Basel III transitional arrangements.	518	521[4]	518
Incurred but not reported ("**IBNR**") portfolio provision	The IBNR portfolio provision covering losses resulting from the performing book, and is fully available to cover creditors' claims in the event of liquidation.	32[2]	44[5]	41[6]
Expected loss / LLP shortfall	The Expected loss/LLP effect is calculated separately for the performing and non-performing portfolios without consideration of any netting effects.	(150)	(146)[5]	(104)[6]
LLPs for redemption carrier loans	The provision allocated for the potential coverage gaps for redemption carrier loans affects profit and provides additional internal capital.	10	15	10
Total internal capital		**3,426**	**3,202**	**3,091**

1) Increase of tangible CRR equity due to positive results in the six months ended June 30, 2017.
2) IBNR reduction due to adjustment of the conservative IBNR parameters for the International Real Estate portfolios to the Retail standards of BAWAG Group.
3) Increase of tangible CRR equity due to positive results in financial year 2016.
4) Increase of Tier 2 capital due to inclusion of IMMO-BANK AG and start:bausparkasse AG issuances.
5) IBNR and expected losses / LLP shortfall increase mainly due to acquisition of the French Mortgage Loan Portfolio and of IMMO-BANK AG and start:bausparkasse AG.
6) IBNR and expected losses / LLP shortfall are including impacts of the acquisition of the U.K. Mortgage Loan Portfolio.

Source: Company information.

The P&L risk-bearing capacity on the other hand assures the continuation of orderly operational business activity under the condition that the minimum regulatory Common Equity Tier 1 ratio, the combined capital buffer requirements according to CRD IV and the BWG, the Pillar 2 requirement and guidance from the supervisory review and evaluation process (SREP), and the internally defined threshold for the Common Equity Tier 1 ratio are met; this implies a going-concern perspective. The calculation of profits and losses is stressed under the going-concern approach by considering a confidence level of 95% of the relevant stress impacts. The components of the profits and loss calculation that can be liquidated to cover losses up to the end of the year are applied as potential internal capital. The objectives are to analyze the cumulative impact of potential losses in each risk category in the time interval between the reference date and the end of the year and to assess the potential volatility of the planned results. The P&L Risk-Bearing Capacity is calculated on a quarterly basis on a group-wide basis without allocating capital to segments or types of risks based on this process.

Whereas the P&L Risk-Bearing Capacity is calculated on a quarterly basis with the goal of ensuring a minimum profit and loss result, the economic steering cycle is calculated on a monthly basis and imposes binding limitations on BAWAG Group. Accordingly, all limits that are set as part of the risk strategy are based on the economic steering cycle. All such limits are set and all such numbers are calculated on the level of PSH Group and not on the level of BAWAG Group.

In addition, BAWAG Group has established and implemented an annual validation process for the methods used under Pillar 2 to ensure that the framework and models used for the purpose of the internal capital adequacy assessment process (ICAAP) provide reliable results.

15.5.3.2 Risk Categories

Within BAWAG Group's risk self-assessment process (see section "*15.5.2 Risk Self-Assessment*" above), all risks in connection with the implementation of the business strategy are analyzed and the quantification of these risks is considered within the internal capital adequacy assessment process (ICAAP). The relevant ICAAP-related risks for BAWAG Group are the following:

- Credit risks;
- Market risks, in particular interest rate risk in the banking book, credit spread risk, correlation between the two risks and other market risks;
- Liquidity Risk, in particular structural liquidity risk, basis spread risk and market liquidity risk in the banking book;
- Operational risks; and
- Other risks such as participation risk, macroeconomic risk, strategic risk, reputational risk, strategic risk capital risk and compliance risk.

All risk assessment methodologies are examined and correspondingly validated as part of the risk self-assessment process in light of different aspects and assumptions.

BAWAG Group policy is to aggregate the individual risks to determine the total risk; accordingly, the risk bearing capacity is calculated by assuming that all individual risk categories are perfectly correlated, without considering risk-reducing diversification effects. The only exception occurs in the risk category market risk where the aggregation of interest rate risk relating to the banking book and credit spread risk is performed by applying conservative assumptions on correlation between these two risks. Inter-risk diversification effects between different types of risks are therefore not considered because such effects can currently not be verified by a model. Conservative correlation assumptions between interest rate risk and credit spread risk are applied within the risk category market risk (intra-correlation effect), leading to a slightly lower combined risk of these two risk types compared to the pure sum of both separate risk quantifications.

BAWAG Group has implemented an annual validation process to review the framework and models for the internal capital adequacy assessment process (ICAAP) as well as the reliability of their results. While all approved models based on the Internal Ratings-Based approach undergo the standardized validation procedure required for Pillar 1 purposes, BAWAG Group has established the same validation standards for credit risk models which are used only under Pillar 2. In addition, validation methodologies have been established for interest rate risk, credit spread risk, and operational risk. The validation team also assesses the qualitative internal capital adequacy assessment process (ICAAP) aspects, especially the quantification of non-financial risk types as well as the adequacy of models and the structure of capital elements used under Pillar 2.

15.5.3.3 Capital Allocation

As a key element of the internal capital adequacy assessment process, BAWAG Group has adopted a comprehensive approach to the allocation of economic capital within BAWAG Group and its segments. The capital allocation and limitation process is performed on an annual basis to ensure that the limits set for the internal capital adequacy assessment process are up-to-date reflecting the full consistency of the business model (and consequently of the planning figures) with BAWAG Group's risk appetite framework. The economic capital available for the strategic capital allocation is equal to the economic risk-bearing capacity as calculated in accordance with BAWAG Group's gone-concern (or liquidation) approach.

In general, the management board of BAWAG P.S.K. defines the overall risk appetite for the group as part of the risk strategy (see section "*15.5.1 Risk Strategy and Risk Planning Process*" above). The risk appetite represents BAWAG Group's willingness to use a defined extent of the available internal capital for risks under consideration of regulatory and economic capital availability, of the liquidity position and the profitability, corresponds directly to the group's (target) risk profile. According to the defined risk appetite, and under consideration of the risk quantification of the various risk types based on the defined Pillar 2 methodologies, capital limits are allocated to the specific risk and sub-risk categories on the basis of the available internal capital. The main specific risk categories which are also reflected in BAWAG Group's portfolios steering framework (see below), are "credit risk", "market risk", "liquidity risk" and "operational risk". Furthermore, the category "other risks" encompasses relevant types of non-financial risks, for which explicit capital elements (based on simplified quantification methods) are held within the Pillar 2 framework.

BAWAG Group does not allocate the entire available capital to the above mentioned specific risk categories, but has established two additional capital buffers. Such additional capital buffers compensate for potential risks that have not been identified/quantified within the Pillar 2 framework. In addition, one of these additional capital buffers also forms a capital reserve for strategic acquisitions.

The capital allocation process is also used to analyze capital requirements for acquisitions of portfolios of loan receivables and acquisitions of separate legal entities (for example banks or leasing companies). In the case of acquisitions of portfolios of loan receivables, either capital from the management buffer is used to cover the risks from such acquisitions or available capital from other segments with a very low limit utilization can be used (in which case BAWAG Group ensures that the segment from which the allocated capital is taken away still has sufficient capital also during times of stress). For acquisitions of legal entities, the capital of the acquired company is considered as additional capital element within the risk-bearing capacity. Any shortfall of the capital of the acquired company is intended to be covered by the capital located within the management buffer of BAWAG Group.

Similar to the development of the risk strategy (see section "*15.5.1 Risk Strategy and Risk Planning Process*" above), risk planning is also carried out as part of annual group-wide planning. Each individual business segment prepares a plan for its business segment as specified by the management board of BAWAG P.S.K. Planning covers volumes, earnings, costs and plans of action. The detailed planning of individual areas is forwarded to all relevant internal stakeholders with budget responsibility. Risk planning for the coming financial year serves as the basis for setting concrete limits as part of capital allocation and is understood to be a strategic specification to control and limit the overall risk position of BAWAG Group. Changes in the limits for the internal capital adequacy assessment process on the highest level of the portfolio steering framework during the year are possible only in exceptional cases and require the approval of the Management Board of BAWAG P.S.K. If the internal capital adequacy is not assured or adherence to the defined minimum buffers is not possible, countermeasures are required to be initiated. Such countermeasures are based on the internally defined escalation mechanism which forms part of BAWAG Group's risk governance.

The limit-setting process is generally conducted once a year as part of, and in accordance with, the update of the risk strategy. This process is made up of individual sub-processes subdivided by risk category and can be initiated ad hoc if this is required (*e.g.*, if only one individual limit of one risk category has to be changed). If a limit is changed, adherence to the premises and basic conditions set by the management board of BAWAG P.S.K. must in any case be checked and a determination made as to whether BAWAG Group's capital adequacy continues to be assured following the limit change.

BAWAG Group has established the following four levels of capital allocation within its portfolio steering framework:

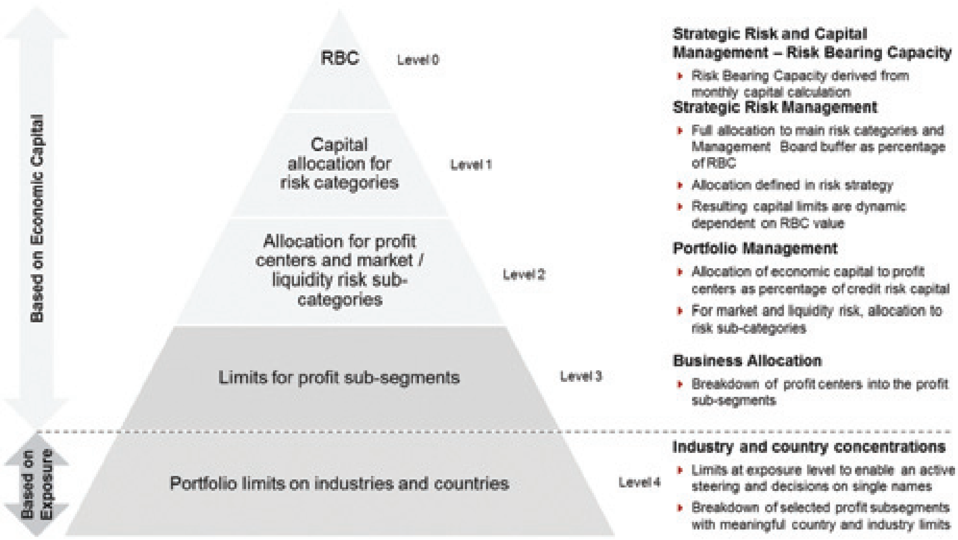
Level 1: Capital allocation to specific risk categories as well as to the defined capital buffers

Level 2: Capital allocation to business segments (credit risk) and sub-categories (market risk and liquidity risk)

Level 3: Capital allocation to business sub-segments (only for credit risk)

Level 4: Exposure limits (derived from economic capital) for geographical and sectoral concentrations (only for credit risk and the relevant business sub-segments)

The following figure shows the capital allocation framework of BAWAG Group:



Source: Company information.

15.5.4 Internal Liquidity Adequacy Assessment Process (ILAAP)

In addition to the internal capital adequacy assessment process, BAWAG Group has established a group-wide internal liquidity adequacy assessment process.

The internal liquidity adequacy assessment process (ILAAP) of BAWAG Group aims to ensure at all times:

- Adequate identification, measuring, evaluation, and governance of liquidity risks over appropriate time horizons;
- Adequate management and monitoring of funding positions;
- Maintenance of adequate liquidity buffers; and
- Maintenance of an adequate funding structure.

The internal liquidity adequacy assessment process consists of all strategies, policies, processes, and systems established by BAWAG Group in order to achieve the objectives outlined above. Liquidity management is a core focus of the group and liquidity together with capital represent its most important scarce resources. Liquidity risk and the internal liquidity adequacy assessment process are consequently fully integrated in BAWAG Group's risk management framework and are interlinked with the internal capital adequacy assessment process.

BAWAG Group is implementing improvements to its internal liquidity adequacy assessment process on an ongoing basis. Examples are new foreign exchange limits (FX Rollover Risk Limit, FX Basis Spread Limit & FX Derivative Counterparty Concentration Limit), an updated methodology for calculating the structural liquidity risk as well as an update of the stress testing methodology. Liquidity risk was further defined as a separate risk category for the internal capital adequacy assessment process with structural liquidity risk, market liquidity risk and foreign exchange basis spread risk as the individual subcategories, each of them being assigned individual limits for the internal capital adequacy assessment process.

15.5.5 Validation of Risk Models

In BAWAG Group, validation of all risk models (covering credit risk models for probability of default (PD) and loss given default (LGD) / credit conversion factor (CCF) as well as other risk types such as Interest Rate

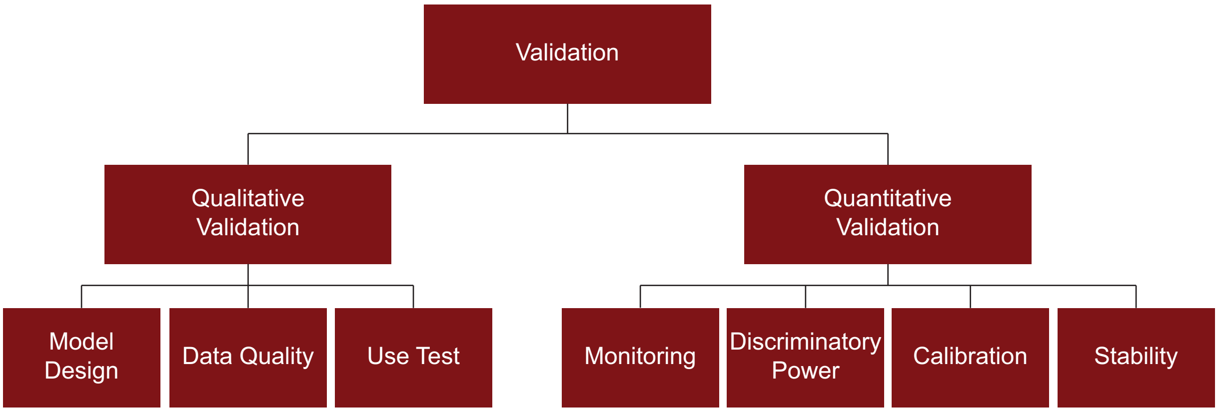
Risk in the Banking Book (IRRBB), credit spread risk and operational risk models) is embedded within a separate independent unit with direct reporting line to the head of the Strategic Risk Division.

BAWAG Group has implemented an annual validation process to review the Internal Ratings-Based and internal capital adequacy assessment process (ICAAP) frameworks, the models in use as well as the reliability of their results. While all approved models based on the Internal Ratings-Based approach undergo the standardized validation procedure required for Pillar 1 purposes, BAWAG Group has established the same validation standards for credit risk models which are used only under Pillar 2. In addition, validation methodologies have been established analogously for interest rate risk, credit spread risk and operational risk.

The validation methodology can be divided into two main areas:

- Qualitative Validation: Deals mainly with data quality and the correct application of the model
- Quantitative Validation: Descriptive analyses and examination of the model regarding discriminatory power, calibration and stability over time

Such division of methodology is outlined in the following figure:



Source: Company information.

The following table gives a general overview of the different methods used for validation purposes:

Validation method	Description
Model Design	Verification of the documentation related to the respective model
Data Quality	Analysis of data quality based on rating penetration and number of facilities with valid and default-compliant risk class Analysis of the frequency of overrulings/overrides and the percentage of missing values
Use Test	Application and acceptance of the model in risk management
Monitoring	Distribution analysis to identify concentration risks of facilities/exposures in individual risk classes Analysis of outdated ratings or ratings based on outdated financial statements Comparison of internal ratings with external ratings (benchmarking) Comparison of risk factor distributions (development/validation)
Discriminatory Power	Testing of the discriminatory power of the overall model and individual risk factors using ROC-curve and Gini coefficient
Calibration	Testing of model as regards calibration by comparing the mean forecast PD and the mean observed default rate on portfolio and risk class level using binomial tests
Stability	Stability analyses of discriminatory power over time Migration matrices for the observation of changes in the risk structure

Source: Company information.

The results achieved using the methods described above are presented via a traffic light system. If results of statistical significance and major deviations from established thresholds exist, measures are defined by the validation unit. Follow-up actions to tackle the detected deficiency are initiated and may result in corresponding adjustments of the model or the underlying framework.

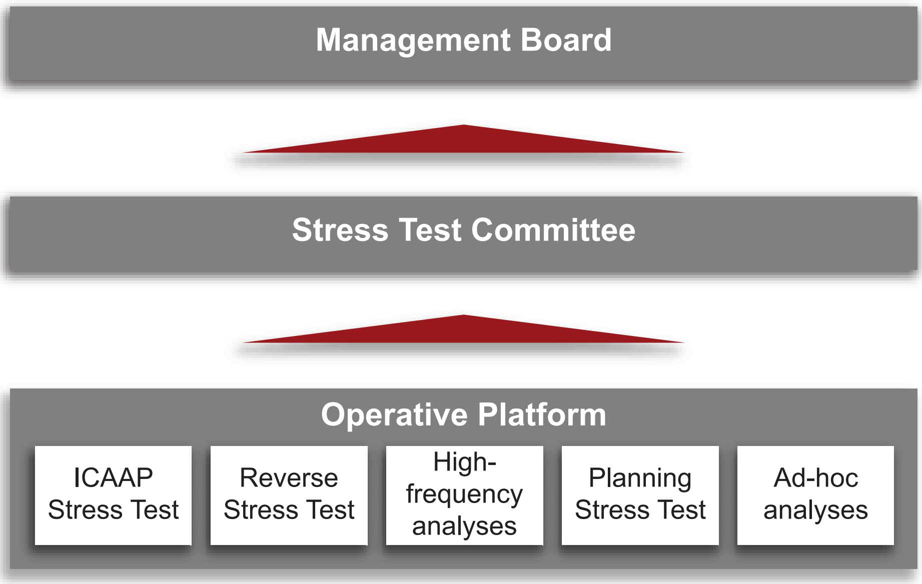
The final validation reports, including the required remedial actions as identified via the validation process, are provided to the head of the Strategic Risk Division and discussed with the members of the management board in the Enterprise Risk Meeting. The current status of each finding is monitored on a regular basis and the relevant units are periodically reminded and informed thereof.

In addition to the annual validation process, initial approval validation is performed for newly developed models. In contrast to the regular validation, the initial approval validation comprises only those modules which are relevant for the assessment of the respective model development.

15.5.6 Stress-testing

BAWAG Group has established procedures to perform stress tests on a regular basis in order to assess the potential effects on the group's financial situation stemming from a specific event or from changes in a series of certain variables, in particular the impact of a severe economic downturn on the group's risk profile and financial position. The focus is on unusual yet plausible events. BAWAG Group considers stress testing as an important management tool and an essential part of its internal risk management. In stress testing, BAWAG Group identifies disadvantageous, unexpected risks of a material nature and determines the amount of capital needed to be able to absorb a loss if a larger shock occurs.

A governance procedure has been defined and established for the conduct of stress tests within BAWAG Group. The figure below summarizes the governance structure:

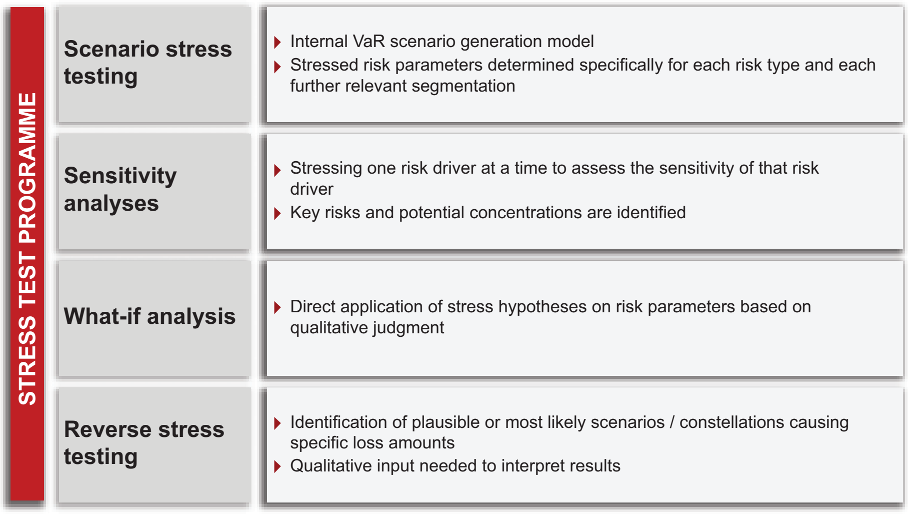


Source: Company information.

At the operational level, the stress testing is organized by the Stress Test Committee.

A comprehensive program for the management of stress testing within BAWAG Group has been defined. The program is an integral part of BAWAG Group's risk management framework. Within the stress test program a portfolio of exercises applying a series of techniques are used on a regular basis.

The following illustration provides an overview of the stress testing techniques currently established within BAWAG Group.

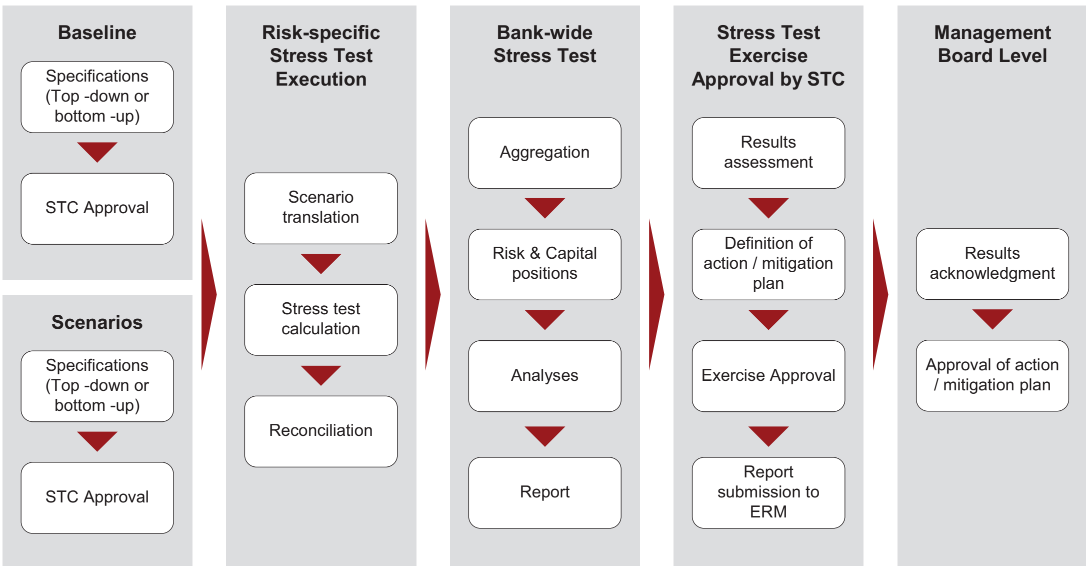


Source: Company information.

Stress tests are performed on regular basis and, in addition, on an ad-hoc basis whenever it is deemed advisable; the scenario-based stress test (ICAAP stress test) is performed on a half-year basis (mid and end of the year) while sensitivities / what-if analysis as well as reverse stress testing are performed in the first and third quarter of each year.

15.5.6.1 Internal Capital Adequacy Assessment Process (ICAAP) Stress-testing

The internal capital adequacy assessment process stress test is conducted with the involvement of the internal Enterprise Risk Management Division, the division Market & Liquidity Risk Controlling, the Non-Financial Risk and Regulatory Compliance Division, the Accounting / Participations Division and the Financial Planning & Analysis Division. The scenarios, baseline and results of the stress test are presented to the Stress Test Committee (STC) that is held on the division level. After the Stress Test Committee (STC) approval the final results are presented to the Enterprise Risk Meeting on the management board level. The following illustration provides an overview of the key process steps for each internal capital adequacy assessment process stress test exercise.



Source: Company information.

The internal capital adequacy assessment process stress test is based on three macro-economic scenarios, one baseline and two adverse scenarios. Each scenario is required to cover a timeframe of three years starting from the reference date of the stress test exercise.

In general, the internal capital adequacy assessment process stress test assumes a static balance sheet without any consideration of possible mitigation measures during the projection period. The severe stress scenario is based on the assumption of a simultaneous economic downturn in the first year in the major European economies as well as in the United States, Japan, China and Russia. The impact on gross domestic product (GDP) growth rates is quantified by using a vector autoregressive model taking into account any historical interdependencies between the single countries including an economic recovery in the third year. Beside gross domestic product, the macroeconomic scenario also includes projections on the unemployment rates and inflation rates. Within the internal capital adequacy assessment process stress test, special emphasis is placed on the international corporate and retail portfolios in order to capture the characteristics of the respective countries/markets as well as industries. Especially with respect to the international corporate portfolio, stressed risk drivers are applied to portfolio sub-segments (markets and industries) to identify potential vulnerabilities of these customer groups. BAWAG Group intends to continue to refine its stress test scenarios for the internal capital adequacy assessment process to cover the material risks BAWAG Group is exposed to in its international business. In this respect, BAWAG Group will adjust the used macro-economic scenarios to cover all international business core markets (for example, the United States, the United Kingdom and Ireland). Such adjustments serve also to allow a proper transmission of stressed risk drivers to the probability of default and the loss given default levels of the international corporate and retail portfolios. The amendments to the processes described in this paragraph are also designed to address findings of an on-site inspection carried out by the OeNB upon instruction of the ECB in 2017 as described under "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" and will be taken into account as from the ICAAP stress test to be conducted in the third quarter of 2017.

Beside the 'normal' severe scenario, there is also an idiosyncratic scenario in place which simulates focused stress on certain exposures of BAWAG Group in terms of geography and single business segments.

The outcomes of the internal capital adequacy assessment process stress test in terms of effects on capital ratios and the income statement are assessed by the ST Committee and reported to the management board of BAWAG P.S.K. The Stress Test Committee is required to propose mitigation measures to the management board in the event that the resulting capital ratios fall below certain warning levels or if the available internal capital is assessed to be insufficient to cover BAWAG Group's risk position in stress.

The internal capital adequacy assessment process (ICAAP) stress test is fully integrated into the bank-wide strategic risk management, capital management and planning processes of BAWAG Group. The link between the stress test program and capital management is formally defined within the internal risk and capital governance. The capital ratios defined within the capital planning process 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.

15.5.6.2 Internal Liquidity Adequacy Assessment Process (ILAAP) Stress-testing

Based on its business model and balance sheet structure, BAWAG Group has identified the following key contingent liquidity risks where BAWAG Group is vulnerable to unexpected liquidity outflows:

- Customer deposits;
- Margin calls of credit support annex agreements (i.e. the request for the provision of (additional) security for a negative mark-to-market value of a derivative transaction) as a result of foreign exchange rate changes;
- Market risk of the liquidity buffer;
- Unsecured wholesale funding market access; and
- Off-balance sheet commitments and liabilities.

Based on this analysis, BAWAG Group in total performs six different stress test scenarios targeting the key vulnerabilities identified in order to gather insights of its potential future position in regard to the overall liquidity situation and the liquidity buffer / counterbalancing capacity that can be monetized to cover liquidity shortfalls. The six scenarios can be partitioned into three different time horizons going from short- to long-term, as shown in the following table. The names of the scenarios indicate the respective vulnerabilities of BAWAG Group.

Short-term stress testing	Medium-term stress testing	Long-term stress testing
1. Idiosyncratic scenario • Economic Free Available Cash Equivalent (FACE) • Horizon: 1 month • Warning level: 1 month • Limit: 1 month	**3. Macro-economic scenario** • Stressed economic FACE • Horizon: 6 months • Warning level: 6 months • Limit: 3 months	**5. Time to required capital market funding** • ECB funding capacity • Horizon: 15 months • Warning level: 15 months
2. Regulatory scenario (LCR) • High quality liquid assets eligible for the liquidity coverage ratio • Horizon: 30 days • Target level: 120% • Limit 100%	**4. Combined scenario (severe)** • Stressed economic FACE • Horizon: 3 months • Warning level: 6 months • Limit: 3 months	**6. Structural liquidity risk** • Horizon: 40yrs • Limit: € 120m

Source: Company information.

Input factors for above described stress test scenarios number 1 to 4 are derived either from historical data (idiosyncratic scenario) or are set by a group of experts of different divisions (the division Market & Liquidity Risk Controlling, the Enterprise Risk Management Division and the division Treasury Markets (TM) ("**Treasury Markets Division**")) based on macroeconomic scenarios or regulatory requirements. All other scenarios are based on the 15-month liquidity forecast. The dynamic liquidity forecast allows a forward-looking view on BAWAG Group's liquidity position and to identify adapted expectations of business units in relation to new business and early redemptions versus funding plans.

BAWAG Group takes the results of its liquidity stress testing into consideration when it calibrates its liquidity buffer available in excess of the regulatory minimum. The liquidity buffer is defined as the metric Free Available Cash Equivalent ("**FACE**") and is currently set at a minimum level of € 1,000m. Taking seasonal effects ('Ultimo effect') and additional buffers held for intraday liquidity risk (payment services and credit lines) into account, the FACE limit implies that BAWAG Group needs to hold a minimum economic liquidity buffer of approximately € 4,500 million to € 4,800 million at all times.

Liquidity buffer requirement	**Amount (in € million)**
+ Liquidity Coverage Ratio Requirement (LCR net outflows) – average	c. € 3,000
+ Ultimo effect – average	c. € 500 - € 800
+ Internal reserve for payment services and drawdowns of credit lines	€ 500
+ Minimum FACE level	€ 1,000
Total minimum unencumbered liquidity buffer	**c. € 4,500 - € 4,800**

Source: Company information.

BAWAG Group suffers its highest net outflows under the idiosyncratic (reputational crisis - short term) and combined (severe) stress scenario driven by significant outflows of retail deposits and margin calls triggered by foreign exchange derivatives. The forward-looking scenarios based on the current business plan show moderate pressure resulting from liquidity needs of business units and resulting structural liquidity risk for a 15 month horizon.

For all scenarios, the size of the available liquidity buffers to cover stressed outflows as of December 2016 is considered very solid.

15.5.7 Recovery and Resolution Planning

The BRRD which has been implemented in Austria by the BaSAG requires Austrian credit institution groups to draw up and maintain a group recovery plan. On this basis, PSH has developed a group recovery plan which is updated and submitted to the group's regulators, in particular the ECB and the FMA, at least annually to reflect changes in the business model and the regulatory requirements. The group recovery plan provides for measures that may be taken by BAWAG Group to restore its financial strength and viability during an extreme stress situation or a significant deterioration of its financial situation. The plan lays out a set of defined actions aimed to protect BAWAG Group, its customers and the markets and prevent a potentially more costly resolution event. In line with regulatory guidance, BAWAG Group has identified a wide range of recovery measures that can mitigate different effects resulting from stress scenarios. As part of the procedures to draw up and annually update the group recovery plan, and in accordance with regulatory guidance, BAWAG Group has also established processes to identify any critical functions and core business segments it may provide.

The management board of BAWAG P.S.K. determines when the group recovery plan has to be invoked and which recovery measures are deemed appropriate.

BAWAG P.S.K. is also working closely with its competent resolution authorities in order for those authorities to draft a group resolution plan for BAWAG Group as set out in the BRRD, the SRM Regulation and the BaSAG.

15.5.8 Implementation of IFRS 9

15.5.8.1 IFRS 9 Implementation

In July 2014, the International Accounting Standards Board (IASB) published a new standard on financial instruments accounting (IFRS 9 "Financial Instruments") ("**IFRS 9**"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the EU. The IFRS 9 standard leaves room for interpretation on how to implement the various requirements. There is not yet a fully harmonized view on international level on this interpretation, either within the community of local banking regulatory authorities, or within the international community of financial auditors.

15.5.8.2 Implementation Program

Over the last two years, BAWAG Group has allocated significant internal and external resources and budgets to the IFRS 9 implementation project. The internal project team is supported by a well-known international audit firm. BAWAG Group has participated in the EBA impact study as well as the ECB Thematic Review on IFRS 9 which was conducted as part of the SREP in 2017. Furthermore, ongoing interaction with experts from the FMA is established in order to ensure that regulatory expectations can be proactively considered within the implementation project. An internal parallel run of the IFRS 9 standard will be initiated in the third quarter 2017 to ensure a sound integration of IFRS 9 in BAWAG Group's bank-wide steering framework.

Overall governance of the IFRS 9 project is established through IFRS 9 steering committee which includes representation from Finance, Risk and IT. Both the CFO and the CRO are members of this steering committee to ensure that the IFRS 9 requirements are implemented in a timely manner to take effect without any delay as of January 1, 2018.

15.5.8.3 Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows will determine its classification and measurement in the financial statements. Upon initial recognition each financial asset will be classified as either fair value through profit or loss, amortized cost, or fair value through Other Comprehensive Income (FVOCI). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, some differences to the classification and measurement of financial assets under IAS 39 are expected. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements.

BAWAG Group has executed various benchmark tests to determine the adequate recognition of fair value under the consideration of the so-called SPPI criteria (solely payment of principal and interest).

Where issued debt liabilities are designated at fair value, the fair value movements attributable to an entity's own credit risk will be recognized in Other Comprehensive Income rather than in the Statement of Income. The standard also allows BAWAG Group the option to elect to apply early the presentation of fair value movements of an entity's credit risk in Other Comprehensive Income prior to adopting IFRS 9 in full. However, BAWAG Group has not elected for such early application. Therefore, the movements of BAWAG Group's credit risk will be presented in Other Comprehensive Income only as from January 1, 2018.

15.5.8.4 Impairment of Financial Assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or fair value through Other Comprehensive Income (FVOCI), and off Balance Sheet Lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to as financial assets).

The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are taken upon initial recognition of the financial asset (or the date that BAWAG Group becomes a party to the loan commitment or financial guarantee), based on expectations of potential credit losses at that time under IFRS 9.

The provisions under IFRS 9 can be split into three segments (so-called stages), which represent different expectations on credit losses. For stage 1 assets (which have not deteriorated significantly since their origination), provisions need to be held based on their one-year expected loss. For stage 2 assets which are considered to have experienced a significant increase in credit risk since their origination, provisions based on their lifetime expected loss need to be held. For financial assets that are credit-impaired at the reporting date (stage 3), provisions similar to the IAS 39 environment, considering multiple scenarios, need to be held. The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. A significant increase in credit risk is determined via both quantitative and qualitative criteria. Quantitative criteria involve both absolute and relative changes in the lifetime probability of default since origination or days past due becoming greater than 30 days, while qualitative criteria involve elements like early warning indicators / watch list classifications.

It is anticipated that the IFRS 9 requirements on measurement of expected credit losses ("**ECL**") are met by using existing models for the Internal Ratings-Based approach as starting point for the derivation of lifetime expected credit losses, considering through-the-cycle and point-in-time adjustments within enhanced models.

As the primary definition for credit impaired financial assets moving to stage 3, BAWAG Group will apply the default definition as laid out in CRR Article 178. Forward-looking information, including macro-economic factors is taken into account to measure IFRS 9 compliant expected credit losses.

IFRS 9 does not distinguish between individually significant or not individually significant financial instruments. Therefore, BAWAG Group has determined to measure the allowance for credit losses on an individual transaction basis. Similarly, the assessment for transferring financial assets between stages 1, 2 and 3 will also be made on an individual transaction basis.

BAWAG Group uses three main components to measure expected credit losses: the probability of default, the loss given default and the exposure at default ("**EAD**"). BAWAG Group uses its approved Internal Ratings-Based models as starting point for the derivation of expected credit losses. Based on these models, through-the-cycle (TTC) components are estimated for the probability of default. In addition, point-in-time (PiT) estimates are derived via separate models, considering macroeconomic factors as additional input variables. Combining both through-the-cycle and point-in-time components, a lifetime probability of default is derived. For all assets experiencing a significant increase in credit risk since their origination, a lifetime expected credit loss is calculated, also taking into consideration through the cycle parameters for the loss given default and the credit conversion factor within this calculation.

For the purpose of IFRS 9 the allowance for credit losses is affected by a variety of key characteristics, such as, but not limited to the expected balance at default and the related amortization profile as well as the expected life of the financial asset. As a consequence, the allowance for credit losses for stage 2 financial assets will increase with the expected lifetime or the expected exposure at default. In detail, regarding the performing credit exposure as of June 30, 2017, 2% of corporates and 4% of retail customers are located in stage 2. This translates into 80% of the provisions for the performing book resulting from stage 1 and 20% from stage 2. In total, BAWAG Group estimates the provisions resulting from the stages 1 and 2 under IFRS9 as of June 30, 2017 at an amount of roughly € 72 million. BAWAG Group intends to mitigate potential stage transfers/customer deteriorations between stage 1 and stage 2 via active portfolio management.

Regarding the methodological changes resulting from classification and measurement, the impact for loans and securities is mainly driven by the fair value of loans, because some indicators do not fulfill the solely payment of principal and interest ("**SPPI**") criteria. This effect is partly compensated by hidden reserves of equity instruments. The negative impact affects the revaluation reserves (OCI) and retained earnings. BAWAG Group intends to mitigate these effects going forward by a hard requirement for new products to fulfill the SPPI criteria. Existing products not fulfilling these criteria are continuously reduced.

Based on June 30, 2017 data and the current implementation status of IFRS 9 as described in further detail above, BAWAG Group estimates the adoption of IFRS 9 to lead to a decline of BAWAG Group's capital ratios (Fully Loaded) of up to 0.40%. This reduction is predominately driven by an increase of the provisions for expected credit losses and revised classification of financial assets. However, it is possible that the first-time application might have greater effects on BAWAG Group's regulatory capital or other currently unforeseen negative effects. The final effects will also depend on the interpretation of the standard of the relevant regulatory authorities, who may examine the implementation of IFRS 9 in detail, and stricter interpretations (for example within the area of impairment) may lead to higher capital impacts.

15.5.8.5 Hedge Accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting.

15.5.9 Basel IV – Impact Assessment

The BCBS has issued certain consultation papers and finalized standards in relation to revisions to the standardized approaches for credit risk and operational risk, constraining the use of internal models for credit risk, capital floors and revisions to the leverage ratio (sometimes jointly referred to as 'Basel IV', although the BCBS does not recognized such term). In addition, the so-called 'Basel IV' package contains revisions to the minimum capital requirements for market risk, revisions to the treatment of sovereign risk exposures and a set of additional disclosure requirements.

Currently, the elements constituting the so-called 'Basel IV' package are at different stages of development. While the revision to the market risk can be deemed final, discussions are still ongoing regarding operational and credit risks.

The proposals contained in the so-called 'Basel IV' package which are, from BAWAG Group's perspective, most important, are summarized below:

15.5.9.1 Proposed Revisions to the Standardized Approach for Credit Risk

In a consultative document published on December 10, 2015, the BCBS proposed revisions to the standardized approach for credit risk. In this respect, the BCBS proposed introducing a sensitivity-based methodology in which risk weights are predominantly based on risk drivers instead of external ratings. Yet, the proposal also allows the use of external ratings, in a non-mechanistic manner, for exposures to banks, corporates and in relation to specialized lending. Pursuant to the aforementioned consultative document, the risk weighting of retail and commercial real estate loans would be based on the loan-to-value ratio as the main risk driver. The BCBS further proposed requiring the assessment of each borrower's ability to pay as a key underwriting criterion, with higher risk weights on real estate exposures where repayment is materially dependent on the cash flows generated by the property securing the exposure.

15.5.9.2 Proposed Non-Eligibility of Certain Credit Risk Exposures for IRB (and Advanced IRB)

In a consultative document published on March 24, 2016, the BCBS proposed to restrict the use of internal models in the calculation of regulatory capital requirements for certain types of credit risk exposures. Pursuant to the BCBS's proposal, credit risk exposures to banks, other financial institutions, large corporates (defined as corporates belonging to consolidated groups with total asset exceeding € 50,000m) and equities would no longer be eligible for the Internal Ratings-Based approach. In the same consultative document, the BCBS proposed to remove the option to use the advanced Internal Ratings-Based approach for exposures to corporates that are part of consolidated groups that have annual revenues exceeding € 200m and to remove the option to use the Internal Ratings-Based approaches for specialized lending that use banks' estimates of model parameters, leaving only the standardized approach and the Internal Ratings-Based supervisory slotting approach for such exposures.

15.5.9.3 Proposed Introduction of Modeling Floors

In its consultative document published on March 24, 2016, the BCBS further proposed introducing exposure-level floors on model parameters used by banks in the Internal Ratings-Based approach. In this respect, BCBS proposed applying floors to the probability of default, the loss given default and the credit conversion factor used to determine exposure at default for off-balance sheet items. With the introduction of such floors, changes to risk-weights and credit conversion factors, internal models would become less risk sensitive and overall more conservative. However, such floors would, pursuant to the BCBS's proposal, only affect portfolios that remain eligible for use of the Internal Ratings-Based approaches.

15.5.9.4 Proposed Revisions in Relation to Collateralized LGD

In its consultative document published on March 24, 2016, the BCBS also proposed a uniform formula for determining loss given defaults in respect of (fully or partially) secured exposures. With respect to secured exposures to corporate and retail clients to which the advanced Internal Ratings-Based is applied, the BCBS proposed to permit banks to directly estimate the downturn loss given defaults, provided that this estimate shall be subject to a floor calculated using a proposed formula. The proposed supervisory-determined floor would be calculated as a weighted average of the floor that applies for unsecured exposures and a floor applicable for fully secured exposures, with the weightings being the proportion of the exposure that is unsecured and the proportion of the exposure that is secured respectively. The proposed floor would vary with the type of collateral securing the relevant exposure.

15.5.9.5 Standardized Approach for Operational Risk

In a consultative document published on March 4, 2016, the BCBS proposed a standardized measurement approach for operational risk. In this respect, the BCBS proposed to remove the advance measurement approach from the regulatory framework and to base the operational risk capital framework on a single non-model-based method for the estimation of operational risk capital. The BCBS is of the view that this approach builds on the simplicity and comparability of a standardized approach, and embodies the risk sensitivity of an advanced approach. The combination, in a standardized way, of financial statement information and banks' internal loss experience promotes consistency and comparability in operational risk capital measurement.

15.5.9.6 Output Floor

In a consultative document published on December 22, 2014, the BCBS proposed a standardized capital output floor pursuant to which a level of capital charges, calculated as a percentage of the capital charges under the standardized approach, shall serve as a minimum to the Pillar 1 capital charges under the internal models approach. The revised capital floors shall be based on the revised standardized approaches for credit, market and operational risk which are currently discussed by the BCBS. The introduction of such floor to the Internal Ratings-Based approach shall prevent banks from using risk estimates that are too far below the outputs of a standardized model devised by regulators. In May 2017, the BCBS stated that it intends to set an aggregate floor on banks' internal regulatory capital models (i.e. a floor based on the sum of the RWAs of all risk categories) instead of risk-category based floors for each major risk category (i.e. no separate floors for each major risk category, such as credit risk, market risk and operational risk). However, the exact configuration of such aggregated capital floor is yet to be determined.

BAWAG Group has currently roughly 55% of its exposures (corresponding to roughly 45% of its credit RWAs) in the standardized approach due to the acquisitions during the last years, which implies that the effect of the output floor will affect BAWAG Group to a much lesser extent compared to peers with a high proportion of their exposures in the Internal Ratings-Based approach. Even considering that for parts of the new acquisitions (e.g. Südwestbank, start:bausparkasse) the Internal-Ratings Based approach will be introduced within 2018-2020 only, the Basel IV impact based on the currently discussed output floor of 70-75% is expected to have only moderate impact on BAWAG Group's capital position. This is based on the fact that the newly developed models for the Internal Ratings-Based approach will consider already the discussions outlined in EBA's review of the Internal Ratings-Based approach as well as information gained from the TRIM examination leading to conservative risk weights. As a result of the potentially higher risk weights for Internal Ratings-Based approach, the delta between the RWAs calculated on the basis of the standardized approach and the RWAs calculated on the basis of the Internal Ratings-Based approach will be reduced. This will limit the impact of the output floor to be introduced as part of the so-called 'Basel IV' package.

Summing up, BAWAG Group expects the implementation of the so-called 'Basel IV' package to have a moderate impact on it due to BAWAG Group's capital position and the conservative RWA density.

15.6 Identification, Measurement and Steering of Risks

15.6.1 Credit Risk

15.6.1.1 Definition of Credit Risk

Credit risk is defined as the risk that a customer is not able to meet its contractual obligations and of BAWAG Group's exposures not being covered by the realization of collateral or by guarantees in the event of such non-performance. All credit risks exist from the time a transaction is concluded until its complete performance, i.e. over the entire term. At BAWAG Group, the credit risk is divided into the following types of credit risks:

- The **default risk** designates the risk of a complete or partial loss of exposures because of a counterparty's inability or unwillingness to pay. This category includes the default risk from credit transactions with customers of all segments as well as the issuer risk from investments in securities. The default risk is by far the most important credit risk variable at BAWAG Group.

- **Credit risk concentrations** are possible disadvantageous consequences that can arise from concentrations or interactions of similar and different risk factors or types of risks such as the risk arising from loans to the same customer, to a group of connected customers or to customers from the same region or industry or to customers providing the same services and goods, from the use of techniques that mitigate credit risk. In this context, only concentration risks within the risk type are examined (intra-concentration risks). At BAWAG Group, credit risk concentrations are identified by country, by industry and by currency. In addition, special attention is paid to potential risk concentrations at the level of individual customers or groups of connected customers. Despite BAWAG Group's primary orientation as a retail bank, BAWAG Group also considers risk concentrations among corporate customers arising from high-volume financing with an economic capital requirement exceeding EUR 7.5m in particular in this context.

- **Credit risk concentrations in foreign currencies** arise from the granting of loans in currencies other than those in which the debtors obtain regular earnings for repayment of their debt. Debtors' risk of default can additionally increase because of exchange rate fluctuations. Both changes in the amount owed and also impaired repayment conditions for the debtor are of relevance in this context. Foreign currency loans are generally subject to a potentially higher risk than loans denominated in euro as a result of potentially rising exposure at default values due to appreciation of foreign currencies and potentially higher default rates in connection with foreign currency appreciation that has already occurred (which could impair the servicing of the loans) and further potential appreciation of foreign currencies until the loans are due and payable. Risks arising from foreign currency loans are managed in accordance with the minimum standards for foreign currency loans issued by the FMA.

- The risk arising from the use of **techniques of credit risk mitigation** (collateral risk) is the risk that the techniques of credit risk mitigation that have been approved by the supervisory authority and that are used by BAWAG Group are less effective than expected. This type of risk occurs in all banks with traditional banking businesses.

- The **creditworthiness / migration risk or spread risk** is the risk of a loss in the value of exposures because the debtor's rating worsens without a default having occurred. The creditworthiness risk is attributable to a deterioration of the credit quality (rating) of the debtor. Spread risks basically exist even without the credit quality diminishing if there is an increase in the yield premium for identically rated bonds with the same currency and term (*e.g.*, due to a different risk appetite in the market or emerging liquidity effects). In terms of accounting, these risks affect the debt instruments in the company's own holdings if the resulting market value losses lead to a valuation change with an effect on profit or loss. Creditworthiness and spread risks occur at BAWAG Group in its investments in securities.

- The **counterparty risk** occurs in transactions with a performance date in the future which were entered into with a fixed price agreement and for which market-related value changes could occur during the term up to the performance date. All conditional and unconditional futures contracts and credit derivatives fall under this category. If the counterparty defaults on a transaction of this kind prior to rendering full performance, BAWAG Group might under certain circumstances have to cover the position on the market with a new counterparty at the conditions prevailing at the time. If the market value has changed unfavorably for BAWAG Group compared to the original transaction, BAWAG Group incurs replacement losses equal to the difference between the originally agreed and the current market value.

- The **settlement risk** consists of the advance payment risk/performance risk and the core settlement risk. The advance payment/performance risk results from BAWAG Group rendering a unilateral advance payment from a mutual transaction. It persists until the counterparty renders the full counter-payment. Settlement risks play a subordinate role at BAWAG Group because financial market and securities transactions are conducted only with active market participants and normally settled within two business days. Corresponding monitoring processes are in place in order to respond quickly to problematic situations. Corresponding lines have been set up to limit settlement risks.

- In the case of **securitization risks**, a distinction is made between risks arising from securitization transactions in which BAWAG Group is the originator or sponsor on the one hand, and on the other hand, risks arising from the purchase of structured debt instruments. In both cases, account must be taken of any operational risks from contract features or the settlement of transactions of this kind in the event of default risk. However, purchased debt instruments not only entail default risks but generally also creditworthiness risks and spread risks. BAWAG Group does not act as an originator of securitizations. For the avoidance of doubt, BAWAG Group does not regard its exposures in relation to its French Mortgage Loan Portfolio and its U.K. Mortgage Loan Portfolio as structured credits. Securitization risk would be allocated to the credit risk in the framework of the economic risk-bearing capacity.

- The **country risk** exists in connection with credit extended to foreign borrowers or with the acquisition of bonds from foreign issuers or other assets having an origin outside Austria. It results from the risk that agreed capital payments (payment of interest and/or repayment of capital) are rendered either not at all or only incompletely or late due to international payment restrictions or due to illiquidity or refusal to pay by a governmental debtor or guarantor. In this context, the macroeconomic situation of the countries concerned is assessed on the one hand, and on the other hand, the countries' specific political and legal risks are examined. In addition, attention is drawn to the credit concentration risk that is controlled by individual country limits. Country risks are considered within the concentration risk framework and restricted by means of capital limits.

15.6.1.2 Identification of Credit Risk

15.6.1.2.1 General

The first phase of the risk management process consists of identifying all credit risks.

Each product in BAWAG Group's portfolio which is classified as approved is analyzed to determine the risk components and factors it contains and is then assigned to a corresponding category. A distinction is made by material risk component between on- and off-balance-sheet items, mandatory capital requirements for credit lines and overdraft facilities as well as structure and modalities especially for derivatives. Each product is required to go through a mandatory product implementation process for risk identification in new business and must pass the approval process. The process is not only for identifying risk, but also entails aspects of product selection. In particular, a lack of adequate methods or internal processes would prevent the product from being approved. A corresponding product implementation process is also required, possibly in shortened form, in cases where distribution channels are changed, new countries or regions are added, risk profiles are modified and/or new features are added. The product implementation process defines different responsibilities ranging from process responsibility, product responsibility and voting to introduction and the correct depiction of products in the IT systems. All risk areas are included in the product implementation process with decision-making possibilities for the purpose of risk identification.

Credit risks are also identified during the risk self-assessment process. For a description of such risk self-assessment process, see "*15.5.2 Risk Self-Assessment*" above.

15.6.1.2.2 Factors for Identifying and Measuring Credit Risk

The parameters outlined in this section are authoritative for identifying and measuring credit risks. The relevant risk parameters are used for all risk management processes. On a facility level, the risk parameters are used for underwriting (approval/rejection depending on the expected credit risk) and pricing (to cover expected losses). On a portfolio level, limit systems and stress testing procedures are established which apply these risk parameters. To address findings of the on-site inspection carried out by the OeNB upon instruction of the ECB described in section "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" above, BAWAG Group has defined an additional back-testing framework for automated provisioning for its French Mortgage Loan Portfolio and its U.K. Mortgage Loan Portfolio. Furthermore, beginning in 2018 most of the risk parameters will be used as starting point for the provisioning models used under IFRS 9. The general approach for the provisions models used under IFRS 9 is outlined in "*15.5.8 Implementation of IFRS 9*".

Probability of Default (PD)

An estimation of the probability of a customer not being able to meet its contractual obligations under a credit transaction involves a determination of the customer's rating, reflecting the so-called probability of default (PD). In this context, the term "probability of default" is understood as the statistical probability that a customer will change to "defaulted" status within a period of one year. For the major part of the portfolio, BAWAG Group applies an internal rating to assess the creditworthiness of customers; only in the case of selected low-default portfolios like states and municipalities, ratings by well-recognized rating agencies (external ratings) are used. The probability of default from the assessment of creditworthiness is mapped to an internal risk class.

Currently, multiple models for corporate customers are used, covering the different segments serving corporate customers. Different models cover processes and characteristics of the different types of corporate customers (e.g. domestic and international customers, Specialized Lending within the meaning of Article 147 (8) CRR and Real Estate). Retail models are currently established on product level, leading to high effort for model management and validation.

BAWAG Group intends to streamline its rating landscape over the next years. Regarding non-retail business, the aim is to merge three of the current corporate models into one harmonized model. Regarding retail business, BAWAG Group will move away from the current product scorecard methodology towards a customer scorecard logic. These enhancements will reduce the number of models by approximately fifteen.

Exposure at default (EAD)

The level of a customer's credit risk is directly correlated to the extent of exposure that BAWAG Group concludes with the relevant customer. At customer level, this exposure subject to risk is designated as "exposure at default" (EAD). This variable is an estimate of the group's exposure to the customer at the time of a possible default. This (future) exposure at default is estimated by applying corresponding credit conversion factors to off-balance-sheet credit components and in the case of derivatives, by applying upward haircuts in percent (add-ons) to the current market value. The customer exposure at default consists of different components depending on the type of transaction involved. The table below contains the most essential components to consider in the exposure at default for each type of transaction:

Product	**Exposure at Default (EAD)**
Credits and loans	Amounts currently still outstanding and any loan or credit promises of which the customer has not yet availed itself with the corresponding crediting factor
Current accounts	Debit balances and all limits not yet used by the customer
Off-balance-sheet transactions	Any credit promises or guarantees of which the customer has not yet availed itself
Securities held by BAWAG Group	Current market value of securities
Securitizations (as investments)	Current market value of securitizations
Investment funds held by BAWAG Group	Current market value of securities
Derivatives (except for derivatives traded on exchanges)	Positive market value plus upward haircuts by supervisory authority
Credit derivatives	For collateral positions: Positive market value plus upward haircuts by supervisory authority, for sell positions (to build up the risk position) – the corresponding underlying instruments

Source: Company information.

Loss Given Default (LGD)

Loss given default (LGD) is defined as economic loss as a percentage of the outstanding exposure at default (EAD). The economic loss comprises the outstanding exposure at default less recoveries from the realization of collateral and other non-collateral proceeds. The retail LGD model is estimated based on historical observations over almost 10 years and distinguishes between a secured and unsecured part. For non-retail exposures, the values prescribed by the standardized approach are used.

15.6.1.3 Quantification of Credit Risk

BAWAG Group quantifies the credit risk under Pillar 1 by using the Internal Ratings-Based approach according to Basel III and the CRR/CRD IV framework. To assure a risk-sensitive process under Pillar 2, the Internal Ratings-Based approach is applied to all portfolios, regardless of having an approval to use the Internal Ratings-Based approach for Pillar 1 or not (meaning that as also portfolios designated as partial or temporary use portfolios are treated under Internal Ratings-Based aspects). For this purpose, a separate risk engine has been implemented to ensure full compliance from both a Pillar 1 and Pillar 2 perspective.

BAWAG Group has defined a group-wide rollout-plan for the Internal Ratings-Based approach which includes the future regulatory treatment of the acquired French Mortgage Loan Portfolio and the U.K. Mortgage Loan Portfolio. The implementation of the rollout-plan will be monitored on an ongoing basis. Furthermore, subject to the required regulatory approval, this would include portfolios held by Südwestbank following the completion of its acquisition. With the group-wide rollout-plan for the Internal Ratings-Based approach, BAWAG Group targets an RWA density of approximately 50% in 2017 and approximately 45% until 2020.

Potential of a further roll-out of IRB models

From Standard to Foundation IRB	EAD (in € bn)	RWA (in € bn)	RWA ratio (actual)	RWA (in € bn) (expected)	RWA ratio (expected)	Planned Application
Exposures to credit institution . .	5.3	2.0	37%[1)]	1.5	28%[2)]	2018
Exposures to holding companies	0.3	0.2	74%[1)]	0.1	56%[2)]	2018
IMMO-BANK	1.1	0.7	66%[1)]	0.5	50%[2)]	2018
start:bausparkasse	1.5	0.6	38%[1)]	0.3	18-20%[2)3)]	2018
Südwestbank[4)]	4.9	3.9	80%[1)]	2.3	47%[2)]	2019-2020
Total	**13.0**	**7.3***		**4.8***		
From Foundation to Advanced IRB						
Exposures to corporates[6)]	11.6	7.1	61%[2)]	5.2	45%[5)]	2019-2020

Note: All data as of July 31, 2017 (unless otherwise stated below). All measures are depending on the final regulatory approval and are based on current interpretation of existing regulation. Furthermore, estimates are based on the portfolio composition as of July 31, 2017 (unless otherwise stated below). Future changes might influence the expected RWA effects.

1) Calculated as RWA / Exposure.

2) Based on internal Pillar II simulation.

3) Based on own estimates.

4) Based on due diligence and data as of December 31, 2016.

5) Based on EBA Report EU Benchmark Exercise 2016 Median of Austrian Banks (Corporate Portfolio in A-IRB).

6) Based on business segment definition.

* Sum of the exact individual RWA numbers, rounded to one digit.

Source: Company information.

Credit risk is quantified centrally at the level of BAWAG Group. Credit risk is measured for all positions subject to credit risk at the credit institutions, including all fully consolidated subsidiaries. Fully consolidated subsidiaries are, in accordance with the CRR, quantified by using the look-through approach, in which the individual credit risk positions are contained in the quantification. Non-consolidated companies under IFRS are taken into account as part of the participation risk.

15.6.1.3.1 Credit Risk Concentration on Single Name and Customer Group Level

To take into account the risk from risk concentrations at individual customer and customer group level, progressive upward capital surcharges are applied. They are defined on an annual basis in conjunction with the update of the risk strategy.

15.6.1.3.2 FX-Induced Credit Risk

In general, foreign currency loans are subject to a potentially higher credit risk than loans denominated in euros as a result of the potentially rising exposure at default values due to appreciation of foreign currencies and on the potentially higher default rates in connection with foreign currency appreciation that has already occurred (which could impair the servicing of the loans especially for assets where a foreign currency mismatch is present, comparing the borrower's income and the denomination of the loan) and further potentially forthcoming appreciation of foreign currencies until the loans are due and payable.

To take into account the appreciation risk for foreign currency financing, the bank applies an additional upward capital haircut calculated with a separate internal model.

15.6.1.4 Monitoring of Credit Risk

Adherence regarding the limits for the internal capital adequacy assessment process is monitored within the framework of the economic risk-bearing capacity. If the limit utilization reaches the warning level, or in case of a limit breach, pre-defined processes are immediately executed. The monitoring of the limits follows a stringent process. For a detailed description of this process, see "*15.5.3 Internal Capital Adequacy Assessment Process (ICAAP)*".

The credit risk is monitored as part of the monthly economic risk-bearing capacity calculation. Changes are analyzed as part of a comparison with the previous month at individual customer level. This analysis (driver of changes) is subsequently integrated into the Group Risk Report. Evolution of days past due as well as early warning information is monitored during the month and is consistently used within the early collection process to prevent as many defaults as possible.

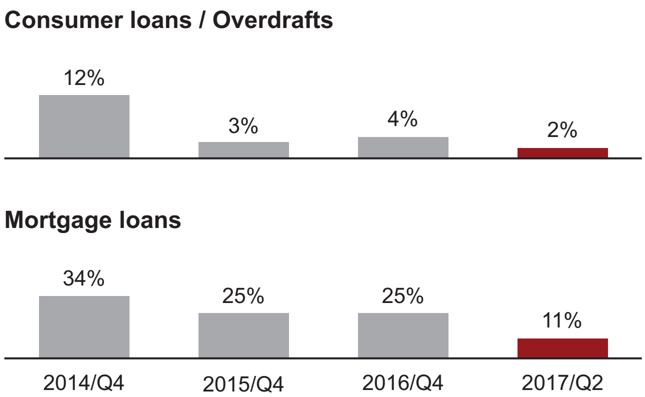
For the purpose of monitoring credit risk, BAWAG Group also employs an early warning system. BAWAG Group is currently extending its early warning system to integrate on an automated basis timely available internal and external warning indicators, for example external rating deterioration, market information on related debt instruments, quarterly financial reporting, covenant breaches as well as country and industry risk indicators. In the context of the early warning system, amended criteria triggering re-ratings and/or impairment tests will be defined. In addition, BAWAG Group will amend its criteria to identify unlikelihood of payment as a default and early warning indicator, in particular with respect to bullet loans contained in its U.K. Mortgage Loan Portfolio. Further, the internal guidelines on forbearance and non-performing exposures will be amended in order to assure a uniform interpretation throughout BAWAG Group. These amendments address findings from OeNB's on-site inspection on behalf of the ECB described in section "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*". It is intended to extend the early warning system by March 31, 2018 and to amend the criteria to identify unlikelihood of payment in accordance with the most recent guidelines - Guidelines on the application of the definition of default under Article 178 CRR from September 2016, and ECB "Guidance to banks on non-performing loans" from March 2017. These amendments will be reflected in BAWAG Group's IT systems, by June 30, 2018. For a description of such early warning system, see "*15.4.4.2 Watch Loan Committee*" above.

15.6.1.5 Management of Credit Risk During the Underwriting Process

BAWAG Group has adopted detailed underwriting guidelines for both retail and non-retail business. These underwriting guidelines are defined on the basis of BAWAG Group's risk and business strategy, and therefore take into account both the risk appetite of BAWAG Group as well as risk/return aspects. Furthermore, the underwriting guidelines are defined in a granular manner on both business segment and product level. Details on retail and non-retail underwriting are given in the following subsections.

15.6.1.5.1 Retail Underwriting

Credit decisions in respect of retail clients are highly automatized and based on sophisticated models as well as decision rules depending on application scoring, risk class, unsecured exposures, maximum LTV-ratios, maximum maturities, standardized collaterals and risk adjusted pricing. The number of manual credit decisions has been significantly reduced since 2014, as shown in the following figure:



Source: Company information.

It is expected that the share of manual decisions for mortgage loans decreases to below 15% during 2017. To assess the relevant client's credit worthiness, BAWAG Group generally reviews input from credit bureaus (for example KSV (*Kreditschutzverband*) and Wirtschaftsauskunft CRIF) and conducts an affordability check on the basis of BAWAG Group's standardized household calculation. Such standardized household calculation measures the disposable monthly income after all expenses (i.e. living costs, communication, mobility, housing, existing debts) and the future installments of the requested loan. The monthly income is only taken into account upon the lapse of a 3-month's minimum duration of employment. In respect of potential clients which are not citizens of a member state of the European Union, BAWAG Group also checks whether the relevant client has an Austrian residence title and a work permit. The maximum net exposure BAWAG Group has implemented a monthly back-testing of all scorecards and decision rules.

BAWAG Group implemented product-specific underwriting guidelines for consumer finance, mortgage loans, overdraft loans, credit card loans and small business. Such underwriting guidelines also define the responsibilities (market, operations and risk) as well as requirements for the relevant application. The Quality Assurance unit ("**QA**") within the Credit Risk Management Division ensures full compliance with the underwriting guidelines.

In the following, further details on the product-specific underwriting guidelines are given:

For employed customers (minimum age: 18 years, maximum age at end of maturity: 80 years, for overdraft facilities and credit cards: 85 years), underwriting guidelines for consumer finance (consumer loans for private use, overdrafts, credit cards) and mortgage loans are in place. Pursuant to such guidelines, (i) the nominal amount of consumer loans may not exceed € 75,000 and the maturity of such loans may not exceed 120 months, (ii) the nominal amount of overdraft facilities may not exceed € 8,000 and the maturity of such facilities may not exceed 12 months, (iii) the nominal amount of credit card loans may not exceed € 5,000, and (iv) the maturity of mortgage loans may not exceed 480 months. The maximum net exposures and the requirements for a positive scoring decision depend on the risk class of the relevant customer. The retail risk class is determined based on the respective statistical scorecard, depending on the product. The input factors of the scorecard are in general comprised of demographic information of the customer (e.g. age, nationality, profession), his payment history, and specific product characteristics.

The underwriting guidelines for small business customers (Basel II – exposure per single customer not exceeding € 1 million) describes credit metrics for revolving lines of credit, overdraft facilities and amortizing loans for business customers. Such underwriting guidelines require a minimum age of business of 2 years, a minimum economic data age of 2 years and a positive outcome of a cash-flow based affordability check. The maximum net exposure on costumer level is a percentage of exposure depending on the risk class. The maturity of amortizing loans may not exceed 120 months or, if the relevant loan is secured by a mortgage, 300 months. No tax or social security backlogs are allowed.

For all products a positive scoring decision is required. "Declined applications" and "defaults" are reviewed on a single case basis for a detailed root cause analysis.

In addition, BAWAG Group has developed a retail analytics- and risk- management framework, covering new business analytics, stock analytics and collection analytics to ensure long term, sustainable portfolio development / growth. In general, new business quality for consumer loans has continuously improved since 2014 and indicates stabilization from 2015 onwards.

15.6.1.5.2 Non-Retail Underwriting

BAWAG Group has established industry-specific underwriting guidelines for Non-Retail business across the whole BAWAG Group.

Standard requirements pursuant to the underwriting guidelines

In relation to corporate loans, such underwriting guidelines require the non-retail underwriting team within the Credit Risk Management Division to conduct independent analysis of the borrower's financials. BAWAG Group's standard requirements for the preparation of such analysis comprise information as to the organizational structure of the borrower, the borrower's audited financial statements for the previous three years, budgets, business plan and projections provided by the borrower (so-called management case). On this basis, BAWAG Group conducts a standardized balance sheet analysis for national and international accounting standards and prepares independent assumptions and stresses the business assumptions at least to two different levels (base case and downside case). Pursuant to BAWAG Group's underwriting guidelines, the non-retail underwriting team has to consider also market factors (for example outlook, regulatory framework, and competitive situation), the client's business model, key risks and mitigations as well as the financing structure, terms and covenants of the intended transaction. The results have to be measured against the benchmarks for the relevant industry sector. Primary data sources for the benchmarking of the relevant industry sector are internal databases or external data (provided by, for example, S&P, Moody's or Bloomberg). For this evaluation, the non-retail underwriting team shall, in addition to the information requested from the borrower, also gather and evaluate information from external sources such as external valuations, external ratings / market reports and press articles. In case of exposures originated by the division International Corporates (IC), International Mortgages & Special Situations (IM) or International Commercial Real Estate (IX), the underwriting guidelines also foresee an external or internal legal and - if appropriate - tax due diligence. In case of secured transaction, the underwriting guidelines require the preparation of up-to-date valuation of the relevant collateral. The applicable valuation methodology is described under sections "*15.6.1.6.3 Appraisal of Market Value of Encumbered Assets*" and "*15.6.1.6.4 Determination of Internal Collateral Value*" below.

In relation to commercial real estate loans, the underwriting guidelines require the non-retail underwriting team to review, inter alia, the audited financial statements of the borrower for up to three years (if available) and to assess the legal, financial and organizational structure of the transaction. The underwriting guidelines require up-to-date valuation reports in respect of the real estate properties which shall be financed by the relevant loan as well as tenant lists with information about the financial standing of the key tenant(s). In case of exposures originated by the division International Commercial Real Estate (IX), the underwriting guidelines also foresee a legal and technical due diligence. The underwriting guidelines require the non-retail underwriting team to prepare, on the basis of the gathered information, financial models for at least two different scenarios (base case and downside case). The results have to be measured against the benchmarks for comparable real estate properties or real estate portfolios, as relevant. Primary data sources for the benchmarking are deals which had been approved or declined by BAWAG Group and external valuation reports.

Credit metrics

The underwriting guidelines implemented by BAWAG Group also comprise product-specific credit metrics. Pursuant to such metrics, the capital consumption of the aggregate exposure to a single non-retail client may not exceed € 7.5m. Since the capital consumption of an exposure is dependent on, inter alia, the rating of the relevant client and the value of the collateral instruments provided to secure the relevant exposure, the aforementioned threshold does not translate into a fixed maximum nominal amount of the aggregate exposure to a single client. The maximum maturities set by the product-specific credit metrics differ from 1 year (for revolving credit facilities) up to 10 years (for, for example, corporate loans and treasury products), provided that amortizing commercial real estate loans may, depending on their amortization profile, have a longer maturity. BAWAG Group's focus is on short-term loans with a maturity not longer than 10 years – otherwise a compulsory amortization structure has to be agreed upon, compensating the economic depreciation at least. The credit metrics also require the insertion of financial covenants in line with the risk profile of the relevant transaction. Leveraged finance transactions without (default) covenants will be treated as outliers from BAWAG Group's commercial underwriting guidelines.

Pursuant to the product-specific metrics, credit applications relating to

- corporate loans are only in compliance with the commercial underwriting guidelines if the relevant borrower has a minimum internal rating of, in the case of new transactions, B1 or, in the case of prolongations of existing transactions, B2 and a net (pro-forma) net leverage of not more than 6x; and
- commercial real estate loans are only in compliance with the commercial underwriting guidelines if the commercial real estate property or properties to be financed by the relevant loan provide, on the basis of the provided valuations and business plans, a minimum debt yield, a minimum debt service coverage ratio and a minimum interest coverage ratio.

BAWAG Group conducts regular reviews of all cases, whereby critical deals are reviewed on a more frequent basis by the respective credit decision making authorities and/or the Watch Loan Committee. If necessary, BAWAG Group conducts additional ad-hoc analyses.

For core portfolios, there are models for the Internal Ratings-Based approach in place which are validated and back-tested at least on an annual basis.

15.6.1.6 Mitigation of Credit Risk

Credit risk can be mitigated by taking collateral for the relevant exposure. The purpose of collateral is to mitigate BAWAG Group's economic loss if a customer defaults. The effect of collateral items varies depending on the type of collateral involved:

- In the case of personal collateral (guarantees, suretyship), third parties (guarantors) oblige themselves to repay the outstanding exposure in the event the relevant primary obligor (i.e. the relevant borrower or customer) is unable or unwilling to fulfill its payment obligations. The risk reduction brought about by a personal guarantee depends mainly on the guarantor's credit standing.
- With all other types of collateral (e.g. financial or physical collateral), BAWAG Group is given a collateral item and a legal claim to (at least part of) the realization proceeds from the realization of the collateral item to cover its outstanding exposure in case the primary obligor is unable or unwilling to fulfill its payment obligations.

15.6.1.6.1 Reduction of LGD and/or EAD

Collateral mitigates the credit risk to the extent that it either lowers the probability of an actual default – in the case of guarantees and the fulfillment of quality criteria, the customer's probability of default is replaced by the guarantor's probability of default – or reduces the expected economic loss of BAWAG Group in the event that the customer actually does default (loss given default (LGD)). The loss given default is the percentage share of the original exposure that is lost in the event a default actually occurs. The loss given default is determined on the basis of two components: realization proceeds from collateral and other repayments expected from the customer that do not stem from the realization on collateral.

If a collateral item is credited against the customer exposure at default (EAD), it is designated as the net-exposure at default or non-collateralized exposure at default. In determining the amount at which a collateral instrument is credited against the customer exposure at default, it is essential to assess whether and to which extent the relevant collateral instrument is eligible as risk mitigant.

15.6.1.6.2 Eligibility of Collateral Instruments

Collateral instruments are only taken into account for the purpose of calculating the risk weighting of an asset if they fulfill all applicable external requirements for credit risk mitigation (which are mainly set out in the CRR) and comply with the internal specific policies for collateral instruments set by the Enterprise Risk Meeting.

The requirements as to the eligibility of collateral instruments from both regulatory and economic perspective are defined in the group-wide credit collateral catalogue. In particular, the collateral catalogue defines which combinations of assets (i.e. characteristics of the encumbered asset) and collateral instrument (i.e. the security interest provided to BAWAG Group) are generally accepted and, for each accepted combination of asset and collateral instrument, whether and in which approach (standardized approach and/or Internal Ratings-Based) the relevant collateral instrument can be taken into account when determining the own funds requirements for the exposure secured by the relevant collateral instrument.

The necessary process steps for the collateral assessment, acquisition, -effectuation, -management and -revaluation are laid down together with responsibilities in accompanying policies. Compliance with legal criteria and the collateral policies is considered during the preparation of the respective loan application in the market departments, checked by the Credit Risk Management Division as the competent risk department and, when the relevant collateral instrument is entered, recorded via the specific security keys selected.

15.6.1.6.3 Appraisal of Market Value of Encumbered Assets

Pursuant to the credit collateral catalogue, it is necessary to determine the market value of the asset encumbered by the relevant collateral instrument, i.e. the value of the relevant asset that can usually be achieved in the course of its sale. For different types of collateral instruments, different methods for the quantification of the current market value are in place.

The most important collateral category is real estate collateral. The market value of real estate collateral is appraised in accordance with the approved appraisal policy and appraisal guidelines of BAWAG Group commissioned by the respective business unit. The aforementioned appraisal policy and guidelines are continuously monitored and, if BAWAG Group deems this to be necessary, adjusted. For private houses and apartments encumbered with real estate liens which serve as collateral for an exposure below € 400,000, the current market value is assessed based on an initial appraisal at the time the relevant loan is granted. Such appraisals are prepared by internal appraisers which are supported by a hedonic valuation tool. The value determined on the basis of such initial appraisal is periodically updated in accordance with the regulatory requirements resulting from the CRR. Such updates are based on the development of real estate price indices for the specific region (in respect of real estate properties (i) in Austria, the annually published property price report of the Austrian Chamber of Commerce (*Immobilienspiegel der Oesterreichischen Wirtschaftskammer*), (ii) in the United Kingdom, the Halifax-Index for residential real estates and, (iii) in France, the Insee-Index for residential real estate properties) under consideration of additional qualitative criteria. BAWAG Group has defined a back-testing framework for such indexed valuations which will be applied on a yearly basis. Collaterals for exposures exceeding the threshold of € 400,000 are subject to a single case valuation (without indexation) within the regular revaluation cycle. The initial appraisal of commercial real estate properties encumbered by real estate collateral is conducted by external appraisers. The market value of such commercial real estate properties is annually updated. Each valuation of a commercial real estate property is reviewed by an experienced valuer at least every five years or, in respect of commercial real estate properties encumbered with real estate liens securing exposures exceeding € 3m, at least every three years.

The market value of cash collateral (like a pledged savings account) corresponds to the nominal value of the relevant collateral. The market value of other financial collateral (like gold) is determined on the basis of publicly available stock exchange prices or indices. The current market value of financial collateral is updated on a daily basis on the basis of the current market rates. The current market value of life insurance contracts (only contracts for which the customer gets a payment at maturity of contract) is determined based on the buyback value, after deducting potential cancellation fees. The relevant information is received directly from the relevant insurance company. The relevant value is quarterly updated based on information delivered by the relevant insurance company.

15.6.1.6.4 Determination of Internal Collateral Value

The credit collateral catalogue further governs how the market value of the asset encumbered by the relevant collateral instrument determined in accordance with the mechanism described in section "*15.6.1.6.3 Appraisal of Market Value of Encumbered Assets*" above has to be adjusted for the purpose of determining the internal collateral value (*Belehnwert*). To this extent, the value of any prior-ranking liens has to be deducted from the market value of the relevant asset.

The remaining value is, pursuant to the credit collateral catalogue, adjusted on the basis of BAWAG Group's experience on effectuation of the collateral, the estimated duration of the enforcement process and the historical collateral return rate (*Sicherheitenerlösquotient*). The historical collateral return rate is an estimated value that is determined statistically based on historical default data (realization proceeds actually obtained, costs incurred during realization operations). This rate indicates the percentage share of the estimated market value of an asset encumbered by a collateral instrument that can actually be obtained in the course of the realization of the collateral instrument. The internal collateral value equals, in the case of (i) residential real estate properties, 80%, and (ii) commercial real estate properties, 50%, in each case of the market value of the relevant property (after deduction of the value of prior-ranking real estate liens encumbering the relevant property, if any).

In respect of personal collateral and financial collateral, the market value of the relevant asset is adjusted by haircuts due to creditworthiness or country-specific risks. In principle, it is possible to apply transaction-related exemptions from the haircuts stipulated in the credit collateral catalogue. However, pursuant to the internally defined competence and power regulation (KPO), such exemptions have to be approved by the appropriate management board or, in certain circumstances, the Credit Risk Management Division.

15.6.2 Market Risk

15.6.2.1 Definition of Market Risk

Market risk is defined as the risk resulting from an adverse change in the market value of on and off-balance sheet positions due to changes in prices, indices, spreads and/or liquidity in a market to which BAWAG Group is exposed. Market risk can arise in conjunction with trading and non-trading activities. At BAWAG Group, the market risk is divided into the following types of market risks:

- Interest rate risk which arises from unmatched net volume gaps of maturities (for fixed rate contracts) and/or repricings (for variable rate contracts) of assets, liabilities, and off-balance sheet contracts as well as yield curve risk, which results from changes in the slope and/or shape of the yield curve;
- Credit spread risk which refers to the risk of loss due to changing market prices through either changes in credit spreads or the spread curve compared to the risk-free rate;
- Foreign exchange rate risk which refers to potential losses that could result from negative changes in the value of open foreign currency positions, receivables or payables in foreign currencies or forward exchange contracts;
- Basis risk, which results from imperfect correlation of repricing of asset and liability rates of different products in spite of other interest gap characteristics being identical (including basis spreads between cash flows in two different currencies, for example, in Cross Currency Swap contracts); and
- Optionality risks, which arise primarily from options, including through gamma effects (i.e. the effects of the delta of options (i.e. option price change given a one unit move of the underlying) in case the price of the underlying changes by one unit) and vega effects (i.e. effects of changes in the option price in regards to the change of volatility)).

15.6.2.2 Identification of Market Risks

Risk identification requires that all existing and potential risks relating to business operations are captured in a systematic and structured approach. The aim of risk identification in market risk management is to identify all market risks which impact the achievement of business objectives. In addition to early risk detection, sources of risk are also determined.

Risk identification is carried out:

- Initially in the product introduction process (PIP), new products (portfolios), services or new target markets to be introduced at BAWAG Group are assessed with regard to all potential risks. On the one hand a defined checklist is used, and on the other, specific product features (e.g. repricing behavior, embedded options) and their associated potential risks are examined, thereby taking into consideration available external data or literature.

- At least once a year within the framework of risk self-assessment (RSA), where in addition to the qualitative as well as quantitative assessment of individual risk types, the adequacy of the risk measurement systems or processes is checked.

Within the framework of periodic risk monitoring and reporting, in that in addition to the individual figures and scenario calculations also recent and expected market data developments (early warning system) are specifically integrated on a continuous (monthly and daily) basis.

15.6.2.3 Quantification of Market Risks

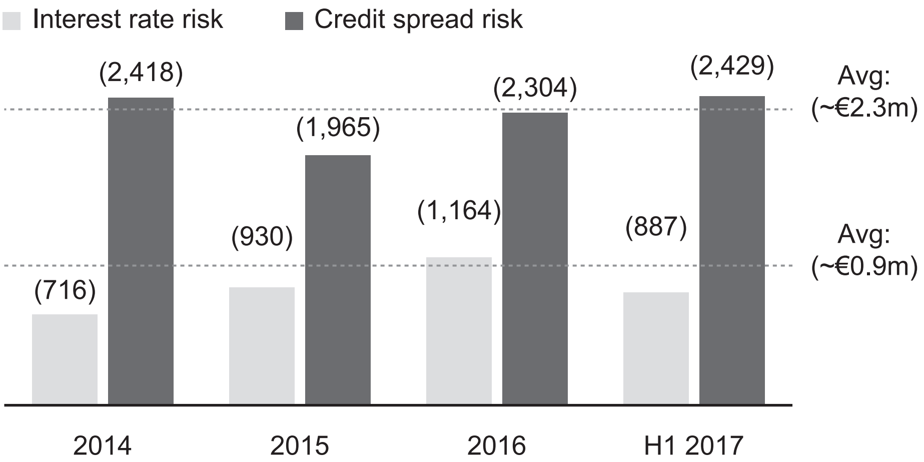
BAWAG Group employs the value-at-risk ("**VaR**") approach for quantification, monitoring and steering of market risks. The VaR concept is further supplemented by sensitivity and worst-case analyses.

Interest rate risk is measured with VaR models using a historical simulation approach, whereas a scenario-based approach is applied 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.

In case VaR models are deemed not be appropriate to accurately reflect the underlying risk, stress tests and worst case analyses are applied (e.g. to calculate the basis spread risk, a worst-case approach is selected in which the current sensitivities are multiplied for each currency by an assumed maximum 1-year changes in basis spreads).

For the purpose of sensitivity analysis of linear interest rate, credit and basis spread risks the concept of the present value of a basis point ("**PVBP**") is employed. The PVBP reflects the impact on net asset value of the underlying position resulting from an upward parallel shift of the interest/spread curve by one basis point (0.01%). Non-linear risk characteristics are determined by measuring the Delta (absolute change in value of price given a change of the basis value by one unit), Gamma (absolute change of Delta due to a change in the basis value by one unit) and Vega (change in the option price due to change in volatility) of options.

Development of market risk sensitivities (PVBP € thousand)



Source: Company information.

15.6.2.4 Monitoring of Market Risk

The division Market & Liquidity Risk Controlling performs a daily monitoring of the relevant market risk factors. Limit monitoring occurs monthly at the group level and daily for Treasury related business (i.e. security portfolios, derivatives etc.).

15.6.2.5 Management and Mitigation of Market Risk

The tasks of risk management and monitoring with respect to market price risks are fulfilled by the SALCO, the division Market & Liquidity Risk Controlling and the Treasury Markets Division including the Asset and Liability Management Department. Furthermore these risks are reported within the comprehensive risk report to the Managing Board in the form of the Enterprise Risk Meeting on a monthly basis.

The primary body for dealing with market risks is the SALCO. The SALCO specifies the desired balance sheet risk structure and decides on strategic market risk positions in relation to interest, currency and liquidity risks, thereby taking respective banking book limits into consideration. Furthermore, SALCO is responsible for the determination of parameters for measuring the market and liquidity risks as well as the approval of liquidity costs, capital costs (on an annual basis), internal reference rates and replication assumptions.

The division Market & Liquidity Risk Controlling is responsible for the independent identification, quantification, monitoring and limitation of market risks the Group is exposed to, both within the framework of the internal control system as well as for regulatory requirements. Within the context of market risk management a granular risk-based limit system is implemented with market risks limited by at least two levels at a minimum, and where regulatory limits apply, at three levels:

- Internal capital adequacy assessment process (ICAAP) limits: Limits within the context of overall bank risk management (e.g. VaR, scenario based approaches).
- Operational limits: Management of the specific risk category (e.g. PVBP-Limits, volume limits, etc.).
- Regulatory limits: e.g. the standard regulatory +/-200bp parallel interest rate shift.

All types of risk are also measured according to the IFRS accounting treatment in order to quantify the impact on key balance sheet items - prospectively through sensitivities or stress test calculations and retrospectively by means of analysis of the results. Currently, the following sub-portfolios are monitored separately within the IFRS framework through the employment of limits:

- Fair Value through Profit and Loss limit: Limits the sensitivity of positions which are accounted for as Fair value and their respective impact on the profit and loss (valuation income).
- Available for Sale limit: Limits the sensitivity of positions accounted for as Available for sale and its impact upon the revaluation reserves (OCI) (Equity Reserve).
- Loans and Receivables / Hold to Maturity limit: Limits the sensitivity of positions accounted for at amortized cost and their impact upon the level of hidden reserves and dormant charges.

All market risks are consistently monitored and steered at BAWAG Group level with no open risk positions within the respective subsidiaries.

With regards to Interest Rate Risk of the Banking Book (IRRBB) the Asset and Liability Management Department, which is part of the Treasury Markets Division, is responsible for implementing the target interest rate risk structure of the banking book within the framework of the guidelines and limits defined by SALCO, managing the sensitivity of Net Interest Income (NII), net valuations gains (gains and losses) the revaluation reserves (OCI) and the hedging of economic risks, thereby taking the balance sheet impact into account. The Asset Liability Management department is instructed to continuously hedge all interest gaps within their respective maturity bands. Any open risk position needs SALCO approval.

For the purpose of mitigating and steering the sensitivity of net valuation gains and the revaluation reserve BAWAG Group currently employs hedge accounting in accordance with IAS 39. Currently the following hedge accounting methods are employed:

- Micro Fair Value Hedge: hedging of the interest rate risk of fixed-interest financial instruments of assets and liabilities.
- Portfolio Fair Value Hedge (EU carve out): Application to portfolios of non-maturity deposits, which have been determined to be available long-term.
- Cash Flow Hedge: Hedging the foreign exchange risk stemming from future spread income of assets that are denominated in foreign currencies as well as basis spread risks of foreign exchange derivatives (i.e. cross currency basis swaps).

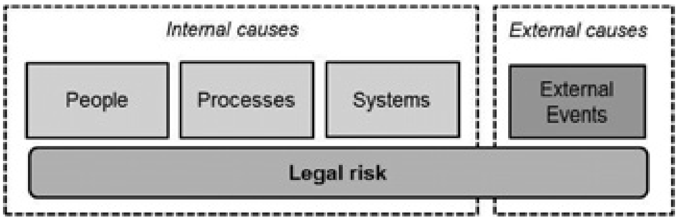
With respect to the impending changes to the hedge accounting through the implementation of IFRS 9, see "*15.5.8 Implementation of IFRS 9*".

The extent of open foreign exchange positions in BAWAG Group's banking book is managed by conservative limits in order to ensure that only marginal foreign exchange risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

15.6.3 Operational Risk

15.6.3.1 Definition of Operational Risk

Operational risks are defined as the risk of losses resulting from inadequacy or failure of internal processes, people, systems or external events. Operational risk includes amongst others legal, information and communication technology (cybersecurity), personnel and conduct risk but not strategic risk or reputational risk.



Source: Company information.

15.6.3.2 Identification of Operational Risk

The operational risk at the level of BAWAG Group is identified using the following methods:

- Risk control self-assessments: Risk control self-assessments are conducted on an annual basis for each segment/subsidiary, in case of significant outsourcing / nearshoring projects and on an ad-hoc basis (*e.g.*, large projects, end-to-end processes).
- Data collection of operational risk events/losses: Data collection is used to collect identified operational risk events / loss incidences. These data are analyzed to determine patterns / clustering and defective processes.
- Key risk indicators: BAWAG Group defines key risk indicators as instruments for the management of operational risks to forecast and then deduce changes in the risk profile in company work flows and divisions and subsidiaries in timely manner.
- Product implementation process: New or modified products and lines of business are examined for inherent risk as well as the general conditions, under which the product should be introduced.
- Analysis of internal audit findings.
- Analysis of external operational risk events that could also affect BAWAG Group.
- Findings by external third parties (including auditors and supervisory authorities).

15.6.3.3 Quantification of Operational Risk

Risk quantification for operational risk is carried out by using a statistical model, the operational value at risk (OpVaR). To calculate the operational value at risk, historical losses of BAWAG Group (backward looking) and risk potential resulting from the risk-control self-assessment ("**RCSA**") (forward-looking) are used. The historical losses are based on the database "operational risk monitor". For the economic capital calculation for operational risk, suitable distributions are defined for the frequency of losses over a certain time horizon and separately for the amount of the individual losses. These two distributions are then merged into one distribution for total loss over the time horizon. BAWAG Group uses Monte Carlo simulation to determine the economic capital calculation for operational risk because this method is usable for any distributions and, unlike approximation, it makes no further model assumptions that can influence the result.

15.6.3.4 Validation

For a full examination based on regulatory and economic capital, a comparison is made between the regulatory capital requirements, the internal capital adequacy assessment process (ICAAP) limit, the risk control self-assessments results, the losses that occurred and the events that resulted in operational risk (potential losses). For the losses and events, a separate examination is conducted in addition, one including the credit risk and one excluding the credit risk.

The examination is conducted ex-ante and ex-post. During the ex-ante examination, the regulatory capital requirements and the internal capital adequacy assessment process (ICAAP) limit of the current year are compared with the risk control self-assessments results, losses and events identified in the previous year. During the ex-post examination, for its part, the regulatory capital requirements and the internal capital adequacy assessment process (ICAAP) limit for the previous year are compared with the risk control self-assessments results, losses and events identified in the previous year.

For further details, see "*15.5.5 Validation of Risk Models*".

15.6.3.5 Monitoring of Operational Risk

The operational risk is monitored as part of regularly conducted reporting by the organizational unit Operational Risk & Internal Control System ("**RCO**") on a monthly basis. RCO provides reports to numerous recipients within BAWAG P.S.K. (including the CEO, the CRO, the Enterprise Risk Meeting, the heads of the divisions established at BAWAG P.S.K. level and the managing directors of BAWAG P.S.K.'s subsidiaries) who are informed about the current operational risk situation in their respective areas.

Risk monitoring of the utilization of the economic risk bearing capacity is done monthly as part of the economic risk bearing capacity. Deviations are analyzed in detail during a comparison with the previous month.

In addition, based on the highest estimated risks resulting from the RCSA, key risk indicators were implemented to identify, forecast and monitor negative trends or a changed risk profile in a timely manner. For each key risk indicator a value is calculated at periodic intervals and the values are compared with the thresholds as defined by the relevant division / subsidiaries. Each key risk indicator is monitored via a traffic light system and for key risk indicators with a red status, the definition and implementation of appropriate countermeasures is mandatorily required. RCO conducts a regular annual review and validation together with the respective division to ensure that the defined key risk indicators and thresholds are appropriate.

15.6.3.6 Management and Mitigation of Operational risk

To manage and reduce operational risk, measures are defined within the yearly conducted RCSAs, the ad-hoc RCSAs i.e. for significant outsourcing- / nearshoring projects, the product implementation process and for key risk indicators with state red. RCO pro-actively tracks the defined measures which include the date of realization and responsible unit / person. For measure tracking the "Measure Tracking Application (MTA)" system is used to ensure a fully documented tracking and processing of all measures including, but not limited, to status of measures, reminders for responsibles, reporting, postponement processing for the respective divisions as well as subsidiaries.

15.6.4 Liquidity Risk

15.6.4.1 Definition of Liquidity Risk

Liquidity risk is divided into three sub-types which are allocated internal capital adequacy assessment process (ICAAP) risk limits:

- Structural liquidity risk (including funding risk): Structural liquidity risk is defined as the risk of an increase of refinancing costs due to deterioration of BAWAG Group's own credit standing derived based on existing or expected liquidity gaps in defined time buckets.
- Basis spread risk: The foreign exchange basis spread risk is related to funding of assets in foreign currencies and results from structural liquidity risk for foreign exchange positions. In case of the mismatch in maturities of funded assets and funding instruments, the changes in the basis spread curve impact the value of the portfolio in a similar way as e.g. credit spreads do.
- Market liquidity risk: Market liquidity risk is the loss incurred when a market participant wants to trade or liquidate a position immediately without best execution. Therefore it captures the risk of facing a loss by selling positions below their value; typically due to widening in bid / ask spreads.

15.6.4.2 Liquidity Risk Framework

The key decisions in relation to the liquidity position of BAWAG Group as well as the liquidity risk management of BAWAG P.S.K. are taken by the Enterprise Risk Meeting and the SALCO. Both have full board representation.

The CFO as a member of the management board of BAWAG P.S.K. bears final responsibility as the liquidity manager for BAWAG Group. The CFO monitors the business units and informs the management board about the overall liquidity situation of BAWAG Group on a regular basis. The CEO is ultimately responsible for the internal liquidity adequacy assessment process and the risk management components thereof.

The primary responsibility for liquidity management of BAWAG Group is allocated to the Treasury Markets Division, which is part of the CFO organization. The department Asset Liability Management (TMA) is responsible for the strategic liquidity and liquidity buffer management, the planning, as well as the collateral management, and functions as the central liquidity management unit of BAWAG Group.

The division Market & Liquidity Risk Controlling, which reports to the CRO, provides independent risk oversight to liquidity management. The division Market & Liquidity Risk Controlling has primary responsibility for controlling of liquidity risk management function. This includes the quantification of key liquidity risks (such as the structural liquidity risk or the foreign exchange basis spread risk related to foreign exchange funding via derivatives) as well as limit monitoring and the relevant escalation procedures. The division Market & Liquidity Risk Controlling ensures the integration of the relevant liquidity risk types into the internal capital adequacy assessment process.

The Treasury Markets Division is further responsible for the operational and tactical short-term liquidity management including the execution of money market trades.

The Accounting / Participations Division is responsible for reporting the main regulatory liquidity requirements to the regulatory authorities in accordance with the applicable reporting templates.

15.6.4.3 Processes for the Measurement of Liquidity Risk

15.6.4.3.1 Risk Identification

The key procedures for identifying liquidity risks are:

- Risk self-assessment: the aim of the risk self-assessment is to ensure a comprehensive risk bearing ability and to ensure the adequacy of the design of the internal capital adequacy assessment process and the internal liquidity adequacy assessment process. The analyses in the context of the risk self-assessment-update include a verification that all material risks in BAWAG Group are considered within group-wide steering process (ICAAP – risk-bearing capacity) and a review whether these risks are managed properly also under the internal liquidity adequacy assessment process. Liquidity risk is considered as a core risk type within the risk self-assessment.

  These risk limits form the framework within which the business planning and liquidity management of BAWAG Group needs to operate. During 2016 the assessment methodology especially for structural liquidity risk and basis risk was improved, following a regular on-site inspection undertaken by the regulators.

- New product implementation process: The new product implementation process is another important process where the internal liquidity adequacy assessment process materializes as an integral part of business decision making. During the new product implementation process all potential risks are identified and addressed with liquidity and funding risks independently considered during the voting process of the Financial Planning & Analysis Division and the division Market & Liquidity Risk Controlling. The division Market & Liquidity Risk Controlling is in charge of the correct representation of new products in all risk relevant systems.

15.6.4.3.2 Risk Quantification

The calculation of the defined liquidity indicators forms a key part of the internal liquidity adequacy assessment process of BAWAG Group. More than 30 liquidity indicators have been selected to cover the identified liquidity risks over appropriate time horizons (ranging from very short-term (intraday) to long-term).

Complementing the liquidity indicators mentioned above, BAWAG Group uses a number of forecasts and scenario analyses to measure the current liquidity risk and to project the expected or the potential development of its liquidity position. These forecasts and scenario analyses include forecasts and simulations in relation to the development of key liquidity indicators.

- **30-day liquidity forecast**: The 30 day liquidity forecast is prepared by the Treasury Markets Division on a daily basis (reported only weekly). It forecasts the liquidity position in all relevant currencies.

- **15-month liquidity forecast**: The expected liquidity position is forecasted on a monthly basis for a 15 month time period and reported as the 15 month liquidity forecast in the SALCO Liquidity Report. As part of its liquidity management activities, the department Controlling Asset Liability Management plans the necessary funding measures to close remaining funding gaps. The forecast also includes a projection of key liquidity indicators post funding measures. It comprises the liquidity coverage ratio, FACE, the loan-to-deposit ratio, Moody's liquidity ratio, and Moody's funding ratio.

- **Funding planning**: The funding plan is prepared in the context of the annual budgeting process. The planning horizon is three years.

- **Liquidity stress tests**: BAWAG Group measures potential liquidity risks by performing scenario analyses. These analyses are based either on empirically available data, hypothetical but plausible stress scenarios, or forward-looking information derived from business forecasts (Liquidity forecast). The liquidity stress testing is designed to identify and address the key vulnerabilities of BAWAG Group towards contingent liquidity risks and to determine the sizes of its liquidity buffer and counterbalancing capacity needs beyond the regulatory minimum standards. The liquidity stress test is described in *"15.5.6.2 Internal Liquidity Adequacy* Assessment Process (ILAAP) Stress-testing" above.

- **Liquidity coverage ratio (LCR)**: The liquidity coverage ratio represents an additional short-term (30 days) stress test. The liquidity coverage ratio is actively steered by the Liquidity & Funding management of BAWAG Group. The liquidity coverage ratio is currently calculated monthly for BAWAG Group as well as single group entities.
- **Structural liquidity risk**: BAWAG Group measures the structural liquidity risk by netting the contractual in- and outflows of all on-balance sheet transaction of BAWAG Group. Any cumulated net outflow gap is then stressed by increased funding costs to close the single gap. Deposits and overdrafts with non-defined maturities are modeled according to the expected run-off profile.
- **Maturity concentration limits**: To avoid concentration of maturing own issues, BAWAG Group introduced a maturity concentration limit for own issues with a 12-months rolling perspective.
- **FX-funding concentration**: To avoid concentration on maturing derivatives in relation of funding denominated in foreign currencies (FX-swaps, cross-currency swaps), BAWAG Group has introduced a maturity concentration limit with a three months rolling perspective.

15.6.4.4 Management of Liquidity Risk

15.6.4.4.1 Contingency Funding Plan

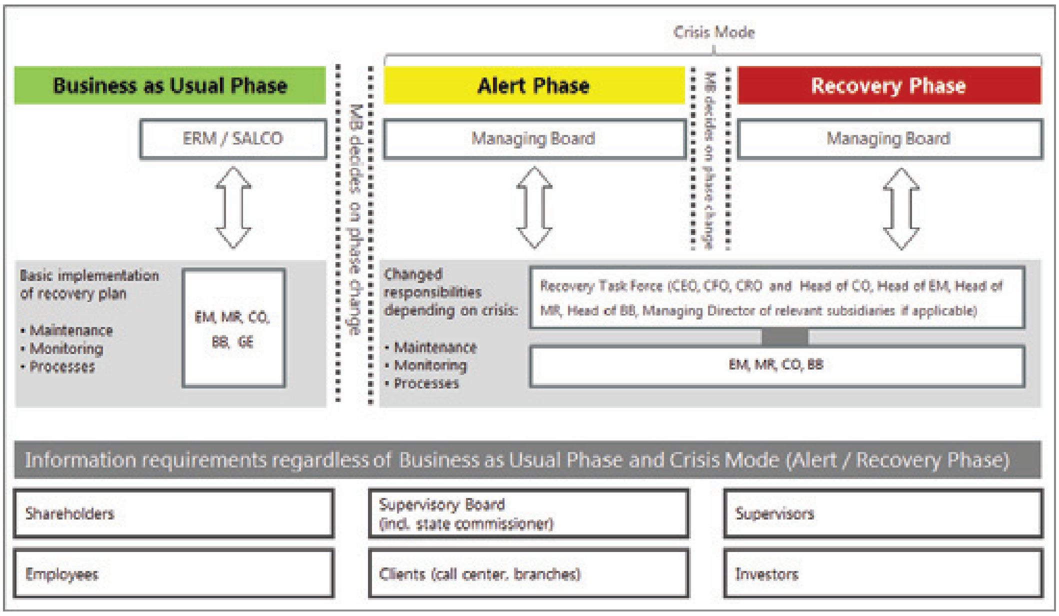
BAWAG Group has two main policies covering the relevant aspects of potential liquidity contingencies:

- Handbook Liquidity Contingency Plan
- Recovery Plan

These documents include the definition of a liquidity contingency, the monitoring procedures in place to identify the occurrence of a liquidity contingency event, changes in the governance resulting from the declaration of a liquidity contingency, as well as the measures available to rectify a liquidity crisis. BAWAG Group orders its overall liquidity risk management governance, including monitoring, notification, escalation, decision and execution processes in two different modes, a non-crisis and a crisis mode.

The organization and procedures relating to a liquidity contingency differ depending on whether the institution is in a non-crisis mode (no liquidity contingency has occurred – focus on monitoring) or in crisis mode (a liquidity contingency has occurred – focus on measures to rectify situation). The crisis mode can be further differentiated into alert and recovery phases. The Managing Board determines when a phase change is required. The following figure summarizes the governance in the business as usual / alert / recovery phase.

Governance of contingency plan



Note: The acronyms included in the above chart have the following meaning: 'CEO' stands for Chief Executive Officer; 'CFO' stands for Chief Financial Officer; 'CRO' stands for Chief Risk Officer; 'MB' stands for management board of BAWAG

P.S.K.; 'CO' stands for Financial Planning & Analysis Division; 'EM' stands for Enterprise Risk Management Division; 'MR' stands for Market & Liquidity Risk Controlling; 'BB' stands for Accounting / Participations Division; 'SALCO' stands for Strategic Asset Liability Committee; 'GE' stands for Corporate Office; and 'ERM' stands for Enterprise Risk Meeting.

Source: Company information.

Next to the information flow in the business-as-usual phase where standardized information is provided to all the stakeholders, specific communication measures are defined in the case of a phase change and as long as the liquidity situation has not improved under an alert or a recovery phase.

The breach of the below liquidity thresholds are presumed to trigger a liquidity contingency subject to the decision of the management board:

- Warning Level: FACE < € 750m
- Recovery level: FACE < € 250m
- Warning Level: LCR < 100%
- Recovery level: LCR < 90%

A liquidity contingency can also be triggered prior to a breach of the above levels in case of a sharp deterioration of the liquidity position of BAWAG Group.

BAWAG Group has a set of pre-defined measures that can be undertaken in case of a liquidity contingency to improve the liquidity situation of BAWAG Group. The list of measures is periodically reviewed and their potential impact quantified.

15.6.4.4.2 Liquidity Buffers

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The holding of the liquidity buffer therefore represents a preventive measure to reduce liquidity risk. The liquidity buffer consists of a portfolio of liquid assets, which can be used to generate cash in a stress situation in order to prevent the illiquidity of BAWAG Group. BAWAG Group only includes assets in its liquidity buffer, which can be liquidated with minimal execution risk in a maximum of 30 days.

BAWAG Group broadly distinguishes two types of liquidity buffers:

- Regulatory liquidity buffer: The regulatory liquidity buffer is used to cover the liquidity coverage ratio (LCR) defined by the Delegated Regulation 2015/61 of the European Commission. It consists of all assets meeting regulatory requirements for eligibility as high quality liquid assets in accordance with the LCR regulation.
- Economic liquidity buffer: Liquidity buffer held in excess of regulatory requirements, based on a wider definition of eligible assets (main criteria: ECB eligibility).

In addition to the liquidity buffer BAWAG Group also has available counterbalancing capacity to generate liquidity within one to six months.

The main indicator for the economic liquidity buffer of BAWAG Group is the internal metric FACE (Free Available Cash Equivalent). It measures the economic liquidity buffer available in excess of the regulatory liquidity coverage requirement (LCR) available within 30 days. FACE is calculated as follows:

\+ Deposits at the OeNB (in excess of minimum reserve requirements)

\+ Unencumbered bonds fulfilling the ECB eligibility criteria (market value post ECB haircut)

\+ Unencumbered credit claims fulfilling the ECB eligible criteria (post ECB haircut)

\- Liquidity coverage requirement (LCR net outflows)

\- Ultimo effect (i.e. the effect of Retail Deposits showing at the last day and the first days of a month a significantly higher volume as customers are receiving wage or pension payments with volumes to drop back to normalized levels after a few days)

\- Internal reserve for payment services and drawdowns of credit lines (currently € 500 million)

= Free Available Cash Equivalent (FACE)

The key difference between the regulatory and the economic liquidity buffer is that the economic liquidity buffer includes all ECB eligible assets, irrespective of their eligibility as HQLA. BAWAG Group considers

ECB eligibility to be an appropriate criterion for inclusion of assets into the liquidity buffer due to the following factors:

- ECB eligibility of bonds is an important driver for market liquidity in repo and outright sale markets
- ECB eligible assets can be used in an emergency for access to ECB funding with ECB as the lender of last resort

The total counterbalancing capacity consists of the following components:

- Economic liquidity buffer
- Liquidity measures with a one to six months liquidation time horizon:
  - Disposal of non-ECB eligible bonds (subject to 30% haircut)
  - Issuance of covered bonds based on excess mortgage cover pool (taking legal and contractual over-collateralization and haircuts into account)

Procedures have been put in place to ensure the required diversification of the liquidity buffer as well as regular test monetization.

The size of the liquidity buffer considered by BAWAG Group as necessary to ensure liquidity adequacy is mainly driven by the stress test results and the risk appetite of BAWAG Group as expressed by the setting of the short term liquidity risk limits (LCR limit of 100% and FACE limit of € 1,000 million). In the event that stress tests reveal increased liquidity risks this will be reflected in higher liquidity buffer requirements (e.g. higher FACE limit; also higher liquidity coverage ratio (LCR) net outflows require the holding of a higher HQLA buffer).

Liquidity buffer composition (FACE) as of June 30, 2017

Buffer component	**Amount (as of June 30, 2017)**
	(in € million)
Deposits at OeNB	1,957
Unencumbered bonds	4,675
Unencumbered credit claims	274
minus liquidity coverage ratio (LCR) requirement	(3,262)
minus ultimo effect	(1,027)
minus cash settlement reserve	(500)
= FACE	2,116

Source: Company information.

An important element of liquidity buffer management is also the effective management of available collateral as well as the steering of the overall level of asset encumbrance. Collateral management is performed by the same unit responsible for liquidity buffer management to ensure a consistent approach.

In line with its strategic focus on financial flexibility BAWAG Group operates with modest levels of asset encumbrance. BAWAG Group's asset encumbrance ratio amounted to 19.5% as of June 30, 2017 (14.7% as of December 31, 2016). The main drivers of existing asset encumbrance are covered bond funding, ECB tender operations as well as promotional lending products (Refinancing from European Investment Bank or Oesterreichische Kontrollbank). While there is currently no internal limit in place in relation to the asset encumbrance ratio, this indicator is monitored on a monthly basis via the SALCO and the existing liquidity buffer limits (LCR / FACE) ensure the maintenance of an adequate reserve of liquid unencumbered assets that can be monetized in a short time frame.

The intraday liquidity management is performed in all relevant currencies with the following objectives: Ensure timely payments and sufficient intraday liquidity at all times while minimizing the costs related to carrying excess liquidity. Each day, there is a detailed forecast for intraday liquidity based on fixed and expected cash flows, where the expected cash flows are based on historical data analysis. In addition, there is a close communication with account managers of large customers regarding potential liquidity flows. Intraday liquidity is managed by monitoring the balances of the relevant nostro accounts, the clearing accounts in all major currencies, nostro accounts with Austrian banks, as well as large customer accounts.

The following tools are used to cover potential intraday liquidity shortfalls:

- Daylight overdraft facility at the OENB hoamat.at account
- Overnight repos on the repo platform Eurex GC Pooling: available bond collateral at Clearstream account

Available Collateral for the daylight overdraft facility as well as overnight repos on the repo platform Eurex GC Pooling are monitored by the Treasury Services & Markets segment on a daily basis. Should this amount become less than € 500 million, the escalation process is triggered resulting in information to the heads of the Treasury Markets Division, the Financial Planning & Analysis Division and the division Market & Liquidity Risk Controlling.

During 2016, no escalation took place and no payments were missed due to lack of intraday liquidity.

BAWAG Group currently does not set capital against the risk of illiquidity as it is cover by the liquidity buffer.

15.6.5 Other Risk

The following types of risks are subsumed under the collective term "Other risks" at BAWAG Group:

Type of risk	Quantification
Participation risk	Annually
Macroeconomic risk	Annually
Compliance risk	Annually
Reputation risk	Annually
Strategic risk	Annually
Capital risk	Annually

Source: Company information.

All risk assessment methodologies are examined and correspondingly validated as part of the risk self-assessment process.

Participation risk is defined as the risk of possible losses from providing own funds to non-consolidated companies, as BAWAG Group has a full look-through approach for consolidated companies for the respective risk categories credit risk, market, liquidity risk and operational risk. Quantification is performed using the PD / LGD approach based on external / internal ratings provided by the Credit Risk Management Division and a loss given default of 90%, plus additional buffer for potential worsening of the rating.

Macroeconomic risk refers to the risk arising from disadvantageous changes in the development of the economies in which BAWAG Group conducts business. The risk factor can be decomposed in the probability of a change to an adverse macroeconomic environment (e.g. recession) and the potential impact of such an environment to the business activity of BAWAG Group.

Compliance risk refers to the danger of potential legal violations and of not being able to comply fully with all applicable laws and regulations and the danger that the implemented processes, guidelines, training and monitoring mechanisms do not suffice to enable BAWAG Group to comply with such laws and regulations. These compliance risks relate to a wide variety of legal and regulatory obligations in multiple jurisdictions and across a broad range of different products and business segments. A particular focus of compliance risk management is BAWAG Group's compliance with its legal obligations to prevent money laundering and the financing of terrorism as well as compliance with securities related regulations. Materializing risks have ramifications in terms of potential administrative penalties on the one hand and on the other, in terms of negatively changing the public's reputation of BAWAG Group (refer also to reputational risk in this regard). Quantification is based on expert judgment and considers among other things the positive track record of BAWAG P.S.K. in term of compliance, the share of "very high risk" and "high risk" classified customers, absence of highly complex products and the strong internal governance requirements for securities advisory.

Reputational risk refers to the risk that an action, transaction, investment or event will adversely affect the image of BAWAG Group in the eyes of the interested public (capital investors / lenders, employees, customers, the press, etc.) with regard to competence, integrity and reliability. Any of the other risks that BAWAG Group faces could also potentially harm its reputation. Quantification is performed assuming a strong reputational risk event with savings run-off of 20% within a period of twelve month, affecting refinancing costs; simulation includes increase of liquidity costs for short term refinancing of total savings run-off but does not consider positive profit and loss effects out of early-withdrawal penalty.

Strategic risk refers to negative effects on capital and earnings due to business policy decisions such as implementation of new business segments or acquisitions or the reduction or elimination of existing business segments, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment. Quantification is based on expert judgment and includes in particular to the unexpected effects of the ongoing strategic acquisitions.

Capital risk refers to a potentially imbalanced composition of capital within BAWAG Group given the type and size of BAWAG Group or potential difficulties in procuring additional internal capital at short notice if required. Whether or not a capital risk exists (from an expert's perspective) depends on the extent of the internal capital, on the level of bank-wide risk entered into compared with the internal capital, on the duration of a possible reduction in bank-wide risk and on the possibility of procuring additional internal capital. Quantification is based on expert judgment and considers the buffers for regulatory minimum capital ratios and internally defined warning levels exist.

15.6.6 Risk Concentration and Risk Diversification

Geographical and sectoral concentrations are managed through exposure limits at the level 4 of the capital allocation structure and the outlined capital allocation process (see "*15.5.3.3 Capital Allocation*").

Furthermore, other complementary concentrations are actively managed and monitored in the portfolio steering framework; these include the following elements:

- Single-name concentrations: list of so-called Large Capital Consumers (groups of borrowers with economic capital utilization over € 7.5 million) with monitoring and management of single name strategy;
- Currency concentrations: economic capital utilization for non-EUR currencies, in total and per single major currency i.e. USD, GBP, CHF and others. BAWAG Group has set a concentration limit for risk from the foreign exchange-induced credit risk (see section "*15.6.1.3.2 FX-Induced Credit Risk*") to 30% of the credit risk capital. In addition, separate limits in respect of the risk in respect of single currencies are in place; and
- Collateral concentrations: list of the large collateral providers (for example municipalities) with amount over € 50 million.

BAWAG Group focuses on intra-risk correlation. Enhancements to this process, and the identification and quantification of inter-risk correlation within a sophisticated credit-portfolio-model, are planned.

15.7 Key Credit Metrics

15.7.1 Overview of Credit Exposure

	L&R	Collaterals[11]	NPL	Loss rate	Cov.[4]	Cash Cov.[12]	RWA ratio[2]	Investm. Grade[3]
	(in € billion)							
BAWAG P.S.K. Retail	**10.0**	**8.3**	**2.0%**	**0.35%**	**85.0%**	**42.6%**	**27.9%**	**n.r.**
o/w Austr. mortgages	4.5	3.9	1.6%	0.00%	90.5%	31.4%	14.7%	n.r.
o/w Unsec. lending[1]	2.3	0.2	2.9%	1.14%	74.1%	66.4%	39.2%	n.r.
o/w Bausparkasse	1.6	1.5	1.6%	0.05%[7]	98.2%	10.2%	33.6%	n.r.
o/w Social housing[5]	1.0	0.9	0.0%	0.00%	n.r.[8]	n.r.[8]	28.4%	n.r.
o/w Small business	0.6	0.4	5.0%	0.23%	88.0%	36.4%	39.4%	n.r.
easygroup	**4.5**	**3.9**	**2.1%**	**0.26%**	**88.4%**	**20.0%**	**83.7%***	**n.r.**
o/w U.K. mortgages	1.8	1.5	3.4%	0.28%	87.3%	3.3%	77.5%*	n.r.
o/w French mortgages	1.4	1.4	1.2%	0.20%[7]	90.5%	0.0%	133.7%*	n.r.
o/w Auto leasing	0.7	0.7	1.7%	0.03%	94.2%	66.5%	69.0%	n.r.
o/w Unsec. lending[1]	0.2	0.0	0.4%[10]	0.49%	84.9%	84.3%	17.6%	n.r.
DACH Corporates & Public Sector	**7.5**	**1.3**	**0.9%**	**0.11%**	**94.0%**	**43.5%**	**31.5%**	**82.9%**
o/w Corporates[5]	3.3	0.9	1.1%	0.12%	95.2%	39.6%	48.7%	72.2%
o/w Commercial Real Estate[5),6)]	1.0	0.5	1.5%	0.60%	88.0%	61.5%	66.7%	66.0%
o/w Public[5]	3.2	0.0	0.6%	0.00%	100%	100.0%	2.8%	99.2%
International Corporates	**2.6[9]**	**0.0**	**0.0%**	**0.00%**	**n.r.[8]**	**n.r.[8]**	**80.3%**	**85.0%**
International Real Estate	**2.8**	**2.3**	**0.0%**	**0.00%**	**n.r.[8]**	**n.r.[8]**	**54.0%**	**98.1%**

Data as of December 31, 2016

1) Including credit cards and current accounts.
2) Calculated as follows: RWA / EaD.
3) Based on internal ratings.
4) (Provisions + Collaterals) / NPL Exposure.
5) Based on business segment definition.
6) Incl. IMMO-BANK.
7) Based on due diligence.
8) No NPLs.

9) Only Loans & Receivables, excluding bonds.
10) NPL stock lower than 1Y-loss-rate due to efficient workout process for unsecured NPLs.
11) Internal haircuts applied.
12) Provisions / NPL Exposure.
* Based on figures (unaudited) adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: Company information.

15.7.2 Mortgage Lending

Key statistics (as of December 31, 2016)	Austrian mortgages	start: bausparkasse	Social Housing	U.K. mortgages	French mortgages	Total mortgages
Total balance	€ 4.5bn	€ 1.6bn	€ 1.0bn	€ 1.8bn[2]	€ 1.4bn	€ 10.3bn
Average loan balance	€ 113k	€ 74k	€ 398k	€ 47k	€ 57k	€ 81k
RWAs	€ 666m	€ 596m	€ 282m	€ 1.3bn*	€ 1.9bn*	€ 4.8bn*
Average LTV	65%	43%	47%	64%	62%	54%[3]
Weighted one year PD	1.8%	1.8%	0.2%	1.9%	2.1%	1.4%
Loss rate	0.00%	0.05%[1]	0.00%	0.28%	0.20%	0.07%[4]
NPL ratio[1]	1.6%	1.6%	0.0%	3.4%	1.2%	1.7%
IRB vs. Standardized Approach (SA)	IRB	SA	IRB	SA	SA	n.a.

1) 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. Such change was applied retroactively to December 31, 2016.
2) Including unsecured loans originally contracted as combined loans.
3) Excluding start:bausparkasse, as the LTV per YE was only available on aggregated level.
4) Excluding start:bausparkasse and the French Mortgage Loan Portfolio due to short observation period.
* Based on figures (unaudited) adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection.

Source: Company information.

15.7.3 Key Credit Risk Metrics

Key credit metrics	June 30, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Non-performing Loans (NPL)	€ 0.79bn	€ 0.69bn	€ 0.69bn	€ 0.73bn
NPL ratio[1]	1.9%	1.7%	1.9%	2.0%
Risk costs	€ 26.7m	€ 42.7m	€ 45.8m	€ 84.3m
Risk costs ratio[2]	0.17%	0.15%	0.17%	0.32%
Coverage ratio[3]	81%	88%	90%	88%
RWAs	€ 18.0bn[5]	€ 19.0bn[5]	€ 17.5bn[5]	€ 16.8bn
RWA density[4]	45.4%[5]	47.9%	48.9%	48.2%

1) 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.
2) Calculated as follows: Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (incl. provisions).
3) Calculated as follows: (Loan-loss provisions + allowance for incurred but not reported losses + provisions for financial guarantees given + collateral) / non-performing loans.
4) Calculated as follows: RWA / total assets.

5) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*9.4 Selected Other Financial Data*" for further details regarding the adjusted numbers and "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection. The following tables show the originally reported values and their respective adjustments:

	As of and for the financial year ended December 31, 2016		
	Originally reported number	Adjusted number	Adjustment
	(unaudited)		
RWAs	€ 17.1bn	€ 19.0bn	€ 1.9bn

	As of and for the financial year ended December 31, 2015		
	Originally reported number	Adjusted number	Adjustment
	(unaudited)		
RWAs	€ 16.5bn	€ 17.5bn	€ 0.9bn

Source: Company information.

15.8 Risk and Capital Performance

15.8.1 Regulatory Capital Requirements

15.8.1.1 Minimum Capital Requirements, Capital Buffers and SREP Capital Requirements

The calculation of BAWAG Group's regulatory capital incorporates the minimum capital requirements (also referred to as Pillar 1 capital requirements), the combined capital buffer requirements (Pillar 1) and SREP capital requirements (Pillar 2) pursuant to the CRR and the CRD IV as implemented into Austrian law.

When referring to results according to full application of the final CRR/CRD IV framework (without consideration of applicable transitional methodology), BAWAG Group uses the term "CRR/CRD IV Fully Loaded". In some cases, CRR/CRD IV maintains transitional rules that had been adopted in earlier capital adequacy frameworks through Basel 2 or Basel 2.5. These relate, e.g., to the risk weighting of certain categories of assets and include rules permitting the grandfathering of equity investments at a risk-weight of 100%. In this regard, BAWAG Group assumes in its CRR/CRD IV Fully Loaded methodology for a limited subset of equity positions that the impact of the expiration of these transitional rules will be mitigated through sales of the underlying assets or other measures prior to the expiration of the grandfathering provisions by end of 2017.

The information in this section is based on the regulatory principles of consolidation. It refers to the capital adequacy of the credit institution group consolidated for banking regulatory purposes pursuant to the CRR and the BWG within BAWAG Group. Group companies of BAWAG Group that are active outside the financial sector do not form part of the credit institution group.

The total regulatory capital pursuant to the effective regulations as of year-end 2016 comprises Tier 1 and Tier 2 capital. Tier 1 capital is subdivided into Common Equity Tier 1 capital and Additional Tier 1 capital.

CET1 capital consists primarily of common share capital (reduced by own holdings) including related share premium accounts, retained earnings (including losses for the financial year, if any) and accumulated other comprehensive income, subject to regulatory adjustments (*i.e.*, prudential filters and deductions). Prudential filters for CET1, according to Articles 32 to 35 CRR, include (i) securitization gain on sale, (ii) cash flow hedges and changes in the value of own liabilities, and (iii) additional value adjustments. CET1 capital deductions comprise (i) intangible assets, (ii) deferred tax assets that rely on future profitability, (iii) negative amounts resulting from the calculation of expected loss amounts, (iv) net defined benefit pension fund assets, (v) reciprocal cross holdings in the capital of financial sector entities and (vi) significant and non-significant investments in the capital (CET1, Additional Tier 1, Tier 2) of financial sector entities above certain thresholds. All items not deducted (*i.e.*, amounts below the threshold) are subject to risk-weighting.

AT1 capital consists of AT1 capital instruments and related share premium accounts as well as non-controlling interests qualifying for inclusion in consolidated AT1, and during the transitional period grandfathered instruments eligible under earlier frameworks. To qualify as AT1 under the CRR/CRD IV Framework, instruments must have principal loss absorption through a conversion to common shares or a write-down mechanism allocating losses at a trigger point and must also meet further requirements (perpetual with no incentive to redeem; institution must have full dividend / coupon discretion at all times, etc.).

T2 capital comprises eligible capital instruments, the related share premium accounts and subordinated long-term debt, certain loan loss provisions and non-controlling interests that qualify for inclusion in consolidated T2. To qualify as T2, capital instruments or subordinated debt must have an original maturity of at least five years. Moreover, eligible capital instruments may inter alia not contain an incentive to redeem, a right of investors to accelerate repayment, or a credit sensitive dividend feature.

Capital instruments that no longer qualify as AT1 or T2 capital under the CRR/CRD IV Fully Loaded rules are subject to grandfathering rules during transitional period and are phased out from 2014 to 2022 with their recognition capped at 60% in 2016 and the cap decreasing by 10% every year.

15.8.1.2 Capital Instruments

Total capital of BAWAG Group consists of CET1 and T2 capital. As BAWAG Group has no AT1 instruments at the moment, Tier 1 capital is equal to CET1 capital.

CET1 capital includes subscribed capital, capital reserves, retained reserves and accumulated other comprehensive income (loss), net of tax. All components of the CET1 capital are fully compliant within CRR rules. The grandfathered instruments during the transitional period have been redeemed by BAWAG Group already in the previous years.

Prudential filters for CET1, according to Articles 32 to 35 CRR, include cash flow hedges and changes in the value of own liabilities and additional value adjustments. CET1 capital deductions consist of intangible assets and goodwill, deferred tax assets that rely on future profitability, negative amounts resulting from the calculation of expected loss amounts. BAWAG Group has no deduction of significant and non-significant investments in the capital (CET1, Additional Tier 1, T2) of financial sector entities because all investments are below defined thresholds. All not deducted items (amounts below the threshold) are subject to risk-weighting.

T2 instruments of BAWAG Group are also fully compliant with the CRR rules. BAWAG Group has no grandfathered instruments included in its regulatory capital outstanding. Deductions of T2 capital are investments in T2 instruments of financial sector entities where BAWAG Group has significant investments.

15.8.1.3 Capital Requirements

The Pillar 1 CET1 minimum capital requirement (pursuant to Article 92 (1) CRR) is 4.50% of risk-weighted assets. The Pillar 1 Tier 1 minimum capital requirement is 6.00% of risk-weighted assets and may be met with up to 1.50% of Additional Tier 1 capital. The Pillar 1 total capital requirement of 8.00% demands further resources that may be met with up to 2.00% T2 capital.

In addition to these minimum capital requirements, the following combined capital buffer requirements are applicable to BAWAG Group. The buffer requirements must be met in addition to the Pillar 1 minimum capital requirements, but can be drawn down in times of economic stress:

- The capital conservation buffer based on Article 129 CRD IV is implemented in Section 23 BWG and equals a requirement of 2.50% CET1 capital of risk-weighted assets. The capital conservation buffer requirement of 2.50% was phased in with 0.625% in 2016 and amounts to 1.25% in 2017.
- The countercyclical capital buffer is deployed in a jurisdiction when excess credit growth is associated with an increase in system-wide risk. It may vary between 0% and 2.50% CET1 capital of risk-weighted assets by 2019. In exceptional cases, it could also be higher than 2.50%. The institution specific countercyclical buffer that applies to BAWAG Group is the weighted average of the countercyclical capital buffers that apply in the jurisdictions where BAWAG Group's relevant credit exposures are located. As per December 31, 2016 (and currently), the institution-specific countercyclical capital buffer of BAWAG Group amounted to 0.0%. The countercyclical buffer rate for 2017 is 0.02% (calculation based on the figures as of 30 June 2017).
- In addition to the aforementioned buffers, national authorities, such as the FMA in Austria, may require a systemic risk buffer to prevent and mitigate long-term non-cyclical systemic or macro-prudential risks that are not covered by the CRR. They can require an additional buffer of up to 5.00% CET1 capital of risk-weighted assets. As of the year-end 2016, a systemic risk buffer of 0.25% was in place for BAWAG Group. For 2017, the systemic risk buffer amounts to 0.5%. In 2018, the systemic risk buffer will increase to 1.0%.
- Unless certain exceptions apply, only the higher of the systemic risk buffer, the buffer for global systemically important institutions ("**G-SII**") and the buffer for other systemically important institutions ("**O-SII**") must be applied. Accordingly, the O-SII buffer (which would be relevant for BAWAG Group) is currently not applied because it is lower than the systemic risk buffer.

In addition, pursuant to the Pillar 2 Supervisory Review and Evaluation Process (SREP), the ECB may impose capital requirements on individual banks which are more stringent than statutory requirements (so-called Pillar 2 or SREP requirements). On November 25, 2015, the ECB informed BAWAG Group that the consolidated credit institution group has to keep a CET1 ratio of at least 8.75% (including 0.625% capital conservation buffer) on a phase-in basis under applicable transitional rules under CRR/CRD IV at all times. Considering the systemic risk buffer of 0.25%, BAWAG Group's overall CET1 requirements amounted to 9.0% as of December 31, 2016. The requirements for BAWAG Group's Tier 1 capital ratio were at 6.875% (including Pillar 1, capital conservation buffer and systemic buffer) and total capital ratio at 8.875% as of December 31, 2016 (including Pillar 1, capital conservation buffer and systemic buffer). In SREP for 2016 Pillar 2 requirement was prescribed only for CET1 capital ratio.

On November 29, 2016, BAWAG Group was informed by the ECB of its decision regarding prudential minimum capital requirements for 2017, following the results of the 2016 SREP. The decision requires BAWAG Group to maintain a phase-in CET1 ratio of at least 8.0% on a consolidated basis, beginning on January 1, 2017. This CET1 capital requirement comprises the Pillar 1 minimum capital requirement of 4.50%, the Pillar 2 requirement (SREP Add-on) of 1.75%, the phase-in capital conservation buffer of 1.25%, the countercyclical buffer (currently 0.02%) and the phase-in systemic risk buffer following BAWAG Group's designation as another systemically important institution of 0.5%. The new CET1 capital requirement of 8.0% for 2017 is lower than the CET1 capital requirement of 9.0%, which was applicable to BAWAG Group in 2016. Correspondingly, 2017 requirements for BAWAG Group's Tier 1 capital ratio are at 9.5% and for its total capital ratio at 11.5%. For 2018, BAWAG Group expects the Pillar 2 requirement and correspondingly the CET1 capital requirement and the Tier 1 requirement to increase by around 0.5 percent points. In addition, following the results of the 2016 SREP, the ECB communicated to BAWAG Group an individual expectation to hold a further "Pillar 2" CET1 capital add-on, commonly referred to as the '"Pillar 2" guidance'. The capital add-on pursuant to the "Pillar 2" guidance is separate from and in addition to the Pillar 2 requirement. The ECB has stated that it expects banks to meet the "Pillar 2" guidance although it is not legally binding, and failure to meet the "Pillar 2" guidance does not automatically trigger legal action.

Failure to meet minimum capital requirements can result in supervisory measures such as restrictions of profit distributions or limitations on certain businesses such as lending. BAWAG Group complied with the regulatory capital adequacy requirements in 2016 and as of June 30, 2017.

The following tables give an overview of the different Pillar 1 and Pillar 2 minimum capital requirements (but excluding the "Pillar 2" guidance) as well as capital buffer requirements applicable to BAWAG Group in the years 2016 and 2017 (on a phase-in basis):

Overview total capital requirements and capital buffers

	2017	2016
Pillar 1		
Minimum CET1 Requirement	4.50%	4.50%
Capital Conservation Buffer	1.25%	0.625%
Countercyclical Buffer	0.02%	0.02%[1]
G-SII Buffer[2]	n/a	n/a
O-SII Buffer[2]	0.25%	0.125%
Systemic Risk Buffer[2]	0.50%	0.25%[2]
Pillar 2		
Pillar 2 SREP Add-on of CET1 capital (excluding the "Pillar 2" guidance)	1.75%	3.625%
Total SREP CET1 Requirement[3]	6.25%	8.125%
Overall CET1 requirement[4]	8.0%	9.0%
Overall Tier 1 requirement[4]	9.5%	6.875%[5]
Overall total capital requirement[4]	**11.5%**	**8.875%**[5]

1) BAWAG Group's countercyclical buffer requirement is subject to country-specific buffer rates decreed by EBA and the Basel Committee of Banking Supervision (BCBS) as well as BAWAG Group's relevant credit exposures as per respective reporting date. The countercyclical buffer rate for 2017 is 0.02% (calculation based on the figures as of June 30, 2017).
2) Unless certain exceptions apply only the higher of the systemic risk buffer, G-SII and O-SII buffer must be applied.
3) Total SREP CET1 Requirement includes Pillar 1 and Pillar 2 requirement, no buffer included.
4) Overall CET1/ Tier 1 / total capital requirement (excluding the "Pillar 2" guidance) is calculated as the sum of the Total SREP requirement (Pillar 1 and Pillar 2), the capital conservation buffer, the higher of the G-SII, O-SII and systemic risk buffer requirement as well as the countercyclical buffer requirement.
5) In SREP for 2016 Pillar 2 requirement was required only for CET1 capital. Hence, the overall Tier 1 requirement and the overall total capital requirement for 2016 did not include the Pillar 2 SREP Add-on of CET1 capital.

Source: Company information.

Overview of regulatory capital

Regulatory Capital Fully Loaded IFRS – CRR	June 30, 2017	December 31, 2016	December 31, 2015
	(in € million, unless otherwise indicated)		
Share Capital	**100**	**100**	**100**
Capital Reserves	**1,094**	**1,094**	**1.094**
Retained Reserves	**2,145**	**1,956**	**1,472**
Other Comprehensive Income	**(20)**	**(30)**	**(33)**
Funds for general bank. risks	**9**	**9**	**9**
Prudential Filters	**(23)**	**(33)**	**(33)**
Goodwill	(64)	(64)	(64)
Intangible Assets	(261)	(253)	(226)
Deferred Tax Assets (DTA)	(150)	(156)	(130)
LLP Shortfall	(43)	(32)	(49)
Deductions (no threshold)	**(518)**	**(505)**	**(470)**
Deductions (threshold)	**0**	**0**	**0**
Common Equity Tier 1	**2,788**	**2,591**	**2,141**
Additional Tier 1	**0**	**0**	**0**
Tier 2 Instruments	478	484	478
LLP Excess	28	25	16
Tier 2 deductions	(21)	(20)	(22)
Tier 2	**485**	**488**	**472**
Total Capital (Fully Loaded)	**3,273**	**3,080**	**2,612**
Credit Risk (Fully Loaded)	**16,413**	**17,352**	**15,736**
Market Risk (Fully Loaded)	**45**	**59**	**97**
OpRisk (Fully Loaded)	**1,580**	**1,633**	**1,620**
Risk Weighted Assets (Fully Loaded)	**18,038**[1)]	**19,044**[1)]	**17,453**[1)]
CET1 Ratio (Fully Loaded)	**15.5%**[1)]	**13.6%**[1)]	**12.3%**[1)]
Total Capital Ratio (Fully Loaded)	**18.1%**[1)]	**16.2%**[1)]	**15.0%**[1)]

1) Numbers are unaudited and have been adjusted from the numbers originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. Please see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection and "*9.4 Selected Other Financial Data*" for further details on the adjustments.

Source: BAWAG Group's Financial Statements and Company information.

15.8.2 Leverage Ratio

15.8.2.1 Leverage Ratio According to Revised CRR/CRD IV Framework

The CRR/CRD IV framework introduced a non-risk based leverage ratio that is intended to act as a supplementary measure to the risk based capital requirements. Its objectives are to constrain the build-up of leverage in the banking sector, helping avoid destabilizing deleveraging processes which can damage the broader financial system and the economy, and to reinforce the risk based requirements with a simple, non-risk based "backstop" measure. While the CRR/CRD IV framework currently does not provide for a mandatory minimum leverage ratio to be complied with by the relevant financial institutions, a legislative proposal published by the European Commission on November 23, 2016 suggests introducing a minimum leverage ratio of 3%. The legislative proposal provides that the leverage ratio applies two years after the proposal's entry into force and remains subject to political discussion among EU institutions.

BAWAG Group calculates its leverage ratio exposure on a Fully Loaded and a transitional basis in accordance with Article 429 CRR as amended by Delegated Regulation (EU) 2015/62 of October 10, 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

BAWAG Group's total leverage ratio exposure consists of the components derivatives, securities financing transactions ("**SFTs**"), off-balance sheet exposure and other on-balance sheet exposure (excluding derivatives and SFTs).

The leverage exposure for derivatives is calculated by using the regulatory mark-to-market method for derivatives comprising the current replacement cost plus a regulatory defined add-on for the potential future exposure. Variation margin received in cash from counterparties is deducted from the current replacement cost portion of the leverage ratio exposure measure and variation margin paid to counterparties is deducted from the leverage ratio exposure measure related to receivables recognized as an asset on the balance sheet, provided certain conditions are met. Deductions of receivables assets for cash variation margin provided in derivatives transactions are shown under derivative exposure in table leverage ratio common disclosure. The effective notional amount of written credit derivatives, i.e., the notional reduced by any negative fair value changes that have been incorporated in Tier 1 capital is included in the leverage ratio exposure measure; the resulting exposure measure is further reduced by the effective notional amount of a purchased credit derivative on the same reference name provided certain conditions are met.

The SFT component includes the gross receivables for SFTs, which are netted with SFT payables if specific conditions are met. In addition to the gross exposure a regulatory add-on for the counterparty credit risk is included.

The off-balance sheet exposure component follows the credit risk conversion factors of the standardized approach for credit risk (0%, 20%, 50%, or 100%), which depend on the risk category subject to a floor of 10%.

The other on-balance sheet exposure component (excluding derivatives and SFTs) reflects the accounting values of the assets (excluding derivatives and SFTs) as well as regulatory adjustments for asset amounts deducted in determining Tier 1 capital.

The following tables show the leverage ratio exposure and the leverage ratio, both on a Fully Loaded basis, on the disclosure tables of the implementing technical standards (ITS) which were adopted by the European Commission via Commission Implementing Regulation (EU) 2016/200 of February 15, 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

Summary reconciliation of accounting assets and leverage ratio exposures

The following table shows the bridge from BAWAG Group's total assets to the leverage ratio exposure as of December 31, 2016. In addition to the total balance-sheet assets, the leverage ratio exposure also recognizes off-balance sheet exposure by applying a credit conversion factor. Furthermore, it recognizes the impact resulting from the different scope of consolidation (according to IFRS or CRR).

Summary reconciliation of accounting assets and leverage ratio exposures (December 31, 2016)	**Applicable Amounts**
	(in € million)
Total assets as per published financial statements	39,743
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	42
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) NO. 575/2013	0
Adjustments for derivative financial instruments[1]	(827)
Adjustments for securities financing transactions	0
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,125
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
Other adjustments	(359)
Leverage ratio exposure	**39,724**

1) Includes replacement costs (including regulatory netting effects) for the derivatives, the cash variation margin received and the add-on under the market-to-market method.

Source: BAWAG Group's Financial Statements and Company information.

Using fully phased-in definition

The following table shows the leverage ratio and the components of its calculation, i.e. the division of Tier 1 capital by the leverage ratio exposure.

	June 30, 2017	**December 31, 2016**	**December 31, 2015**
	(in € million, unless otherwise indicated)		
Leverage Ratio Exposure	39,632	39,724	35,622
Tier 1 capital	2,788	2,591	2,141
Leverage Ratio (Fully Loaded)	7.03%[1]	6.52%[1]	6.50%[2]

1) As required by the regulatory framework, Leverage Ratio is calculated using figures as of the end of the respective period.
2) As required by the regulatory framework, Leverage Ratio is calculated using three months average figures.

Leverage ratio common disclosure

On-balance sheet exposures (excluding derivatives and SFTs) (December 31, 2016)	CRR leverage ratio exposures
	(in € million)
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	38,762
Asset amounts deducted in determining Tier 1 capital	(512)
Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**38,250**
Derivative exposures	
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	175
Add-on amounts for potential future exposure (PFEF associated with all derivatives transactions (mark-to-market method)	321
Exposure determined under Original Exposure Method	0
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(147)
(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	0
Adjusted effective notional amount of written credit derivatives	0
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
Total derivative exposures (sum of lines 4 to 10)	**349**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
Counterparty credit risk exposure for SFT assets	0
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
Agent transaction exposures	0
(Exempted central counterparty (CCP) leg of client-cleared SFT exposure)	0
Total securities financing transaction exposures	**0**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	6,157
Adjustments for conversion to credit equivalent amounts	5,032
Total off-balance sheet exposures (sum of lines 17 to 18)	**1,125**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and Total Exposures	
Tier 1 capital	2,591
Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	**39,724**
Leverage Ratio	
Leverage Ratio	6.52%
Choice on transitional arrangements and amount of derecognized fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	fully phased-in
Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	0

Source: BAWAG Group's Financial Statements and Company information.

Split-up of on balance sheet exposures (excluding derivatives and SFTs) (December 31, 2016)	CRR leverage ratio exposures
	(in € million)
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	38,762
	(in € million)
Trading book exposures	0
Banking book exposures, of which:	38,762
Covered bonds	1,226
Exposures treated as sovereigns	5,676
Exposures to regional governments, multilateral development banks (MDB), international organizations and public sector enterprises (PSE) NOT treated as sovereigns	1,373
Institutions	3,527
Secured by mortgages of immovable properties	10,776
Retail exposures	3,715
Corporate	9,117
Exposures in default	523
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	2,829

Source: BAWAG Group's Financial Statements and Company information.

15.8.2.2 Description of the Factors Affecting the Leverage Ratio as of and for the Six-Month Period Ended June 30, 2017

As of June 30, 2017, BAWAG Group's Fully Loaded CRR/CRD IV leverage ratio was 6.49% compared to 6.52% as of December 31, 2016, taking into account as of June 30, 2017 a Fully Loaded Tier 1 capital of € 2,571 million over an applicable exposure measure of € 39,632 million (€ 2,591 million and € 39,724 million as of December 31, 2016, respectively).

BAWAG Group's CRR/CRD IV leverage ratio according to transitional provisions was 6.56% as of June 30, 2017, calculated as Tier 1 capital according to transitional rules of € 2,601 million over an applicable exposure measure of € 39,663 million. The exposure measure under transitional rules is € 31 million higher compared to the Fully Loaded exposure measure as the asset amounts deducted in determining Tier 1 capital are lower under transitional rules.

In the six month period ended June 30, 2017, BAWAG Group's leverage ratio exposure decreased by € 92 million to € 39,632 million. This principally reflects a decrease in off-balance sheet items with a credit conversion factor of 50% and a decrease of the total assets due to redemptions of the credit portfolio.

For the main drivers of the Tier 1 capital development please refer to section "*15.8.1 Regulatory Capital Requirements*" of this Prospectus.

15.8.3 ICAAP Performance

15.8.3.1 ICAAP Performance – Credit Risk

As described above in more detail, credit risk is quantified in the internal capital adequacy assessment process (see "*15.5.3 Internal* Capital Adequacy Assessment Process (ICAAP)"). In respect of collateral, BAWAG Group uses an economical approach to accepted collateral in the internal capital adequacy assessment process that differs from the regulatory approach in Pillar 1 in relation to the credit risk.

Economic capital utilization for Credit Risk in segments corresponding to level 2 of the portfolio steering framework

Business segments	June 30, 2017			December 31, 2016	December 31, 2015
	Utilization (in € million)	Limit	Utilization (%)	(in € million)	
BAWAG P.S.K. Retail	261	344	75.9%	485	394
Subsidiaries	158	227	69.5%		
t/o Bausparkasse	*71*	117	60.1%	*82*	*n/a*
International Mortgage Loan Portfolios	71	196	36.2%	51	31
DACH Corporates & Public Sector	294	423	69.6%	282	634
International Business	339	525	64.6%	329	
Treasury Services & Markets	150	200	75.1%	145	131
Corporate Center	25	36	70.7%	57	46
Total credit risk	**1,298**	**1,951**	**66.6%**	**1,348**	**1,236**

The figures between the annual periods are not fully reconcilable due to several resegmentations within the three years.

Source: Company information.

Economic capital utilization for Credit Risk by country (in € million)

Country	June 30, 2017	December 31, 2016	December 31, 2015
		(in € million)	
Austria	631.0	679.2	546.6
United Kingdom	172.1	180.6	185.8
United States	163.5	164.8	165.2
Germany	61.7	51.2	50.7
Ireland	42.3	40.9	28.0
Spain	36.0	31.5	39.1
France	33.9	51.8	40.2
Netherland	31.0	23.2	39.6
Italy	16.8	16.5	22.4
Denmark	10.2	10.9	8.4
Switzerland	10.1	10.3	12.2
Sweden	8.7	5.9	8.3
Luxemburg	8.4	4.7	6.0
Norway	7.2	8.9	2.8
Canada	5.8	2.6	3.0
Rest	24.6	31.0	42.6
CVA	25.0	25.0	25.0
not assigned	9.7	9.0	10.1
TOTAL	**1,298.0**	**1,348.0**	**1,236.0**

Source: Company information.

Economic capital utilization for Credit Risk by industry (in € million)

Industry	June 30, 2017	December 31, 2016	December 31, 2015
		(in € million)	
Real Estate	208.7	113.1	111.6
Banks	144.3	141.3	126.1
Government	80.5	81.0	80.0
Services	69.4	64.4	65.9
Portfolio	66.8	72.2	91.1
Investment Funds	52.7	26.9	31.6
Business to customer (B-2-C) Products	42.3	47.3	42.4
Automotive	32.2	32.9	36.1
Social Housing	26.8	24.9	29.6
Gaming & Leisure	26.2	27.0	25.0
Pharmaceuticals & Health Care	23.3	28.0	47.8
Public Sector	22.4	37.1	39.0
Transport	17.6	22.0	23.7
Commodity	16.2	22.9	25.2
Construction & Building Materials	14.9	15.3	23.5
Retail – Food	11.7	12.1	16.6
Wood & Paper	11.5	14.9	10.3
Engineering and Business to Business (B-2-B)	11.1	16.9	21.9
Hotels	10.9	10.3	8.8
Beverages, Food & Tobacco	7.8	8.3	16.8
Chemicals	7.1	7.8	9.8
Telecommunication	6.9	8.7	15.8
Media	4.9	4.6	5.6
Utilities	3.5	3.9	7.6
Non-governmental organization (NGO)	2.3	2.2	2.6
Insurance	1.8	0.0	1.0
Leasing	0.7	0.9	2.1
Total Commercial Industries	**924.3**	**847.1**	**917.4**
Not assigned	348.7	475.9	293.6
CVA	25.0	25.0	25.0
TOTAL	**1,298.0**	**1,348.0**	**1,236.0**

Source: Company information.

15.8.3.2 ICAAP Performance – Market Risk

Economic capital utilization / buffer for Market Risk (in € million)

Type of risk	June 30, 2017			December 31, 2016	December 31, 2015
	Utilization (in € million)	Limit	Utilization (%)	(in € million)	
IRRBB	154	333	46.4%	213	217
Credit Spread Risk	291	352	82.7%	276	259
Interest Rate Risk /Credit Spread Risk correlation	(42)	(70)	60.2%	(51)	(50)
Other Market Risks	10	25	39.1%	46	59
Basis Spread Risk	*n/a*[1]	n/a	n/a	*33*	*43*
Trading Book	4	6	67.2%	5	5
FX Banking Book	4	18	22.4%	6	9
Funds (Alternative Investments Portfolio)	1	1	n/a	2	2
Total market risk	**413**	**639**	**64.6%**	**484**	**486**

1) With the implementation of the Risk Strategy 2017 (February 2017), Basis Spread Risk becomes standalone risks within the risk category liquidity.

Source: Company information.

15.8.3.3 ICAAP Performance – Liquidity Risk

Economic capital utilization / buffer for each risk in the category "Liquidity Risks" (in € million)

Type of risk	June 30, 2017			December 31, 2016	December 31, 2015
	Utilization (in € million)	Limit	Utilization (%)	(in € million)	
Structural liquidity risk	22	120	18.7%	17[1]	9[1]
Market-liquidity risk bank book[1]	20	20	n/a	20	20
Basis spread risk[2]	25	70	35.9%	33[2]	43[2]
Total liquidity risk	**68**	**210**	**32.1%**	**n/a**	**n/a**

1) Till the implementation of the Risk Strategy 2017 (February 2017), structural liquidity risk and market-liquidity risk bank book were considered in the category "Other Risks".
2) Till the implementation of the Risk Strategy 2017 (February 2017), basis spread risk was considered in the category "Other Market Risks".

Source: Company information.

15.8.3.4 ICAAP Performance – Operational Risk

Economic capital utilization for Operational Risk (in € million)

Type of risk	June 30, 2017			December 31, 2016	December 31, 2015
	Utilization (in € million)	Limit	Utilization (%)	(in € million)	
Operational risk	88	120	73.4%	57	58

Source: Company information.

15.8.3.5 ICAAP Performance – Other Risk

Economic capital utilization / buffer for each risk in the category "Other Risks" (in € million)

Type of risk	June 30, 2017	December 31, 2016	December 31, 2015
		(in € million)	
Participation risk	26	26	25
Structural liquidity risk[1]*	n/a[1]	17	9
Macroeconomic risk	100	65	65
Market-liquidity risk[1] bank book	n/a[1]	20	20
Reputational risk	12	8	11
Strategic risk	70	44	31
Compliance risk (Risk of money laundering and financing of terrorism etc.)	5	5	5
Capital risk	0	0	5
Total other risks	**213**	**185**	**171**

1) With the implementation of the Risk Strategy 2017 (February 2017), structural liquidity risk and market liquidity risk become standalone risks within the risk category liquidity.
* Structural liquidity risk is the only risk with an economic capital model, calculated on monthly basis; all other risks are quantified as fix buffer, defined in the Risk Self-Assessment on a yearly basis.

Source: Company information.

15.9 Liquidity and Funding Performance

15.9.1 Liquidity Coverage Ratio (LCR) Performance

June 30, 2017	December 31, 2016	December 31, 2015
146%	138%	137%

Source: Company information.

The LCR is a ratio developed and introduced in accordance with CRR that should measure the capability to meet short-term liquidity requirements in a stressed scenario. Thereby the calculated stressed net liquidity outflows have to be covered by HQLAs that could be transformed into cash within a short period. The LCR is calculated by dividing the HQLA by the net outflows. The LCR has a scope of 30 calendar days.

15.9.2 NSFR Performance

June 30, 2017	December 31, 2016	December 31, 2015
146%	130%	127%

Source: Company information.

Next to the short term liquidity ratio (LCR), the CRR also foresees a long-term liquidity ratio called Net Stable Funding Rate ("**NSFR**"). Under 1 year's perspective, the NSFR compares the available stable funding with the required stable funding, both calculated by measuring potential in- and outflows that are weighted by an expected cash-factor. Currently there is no regulatory minimum ratio prescribed, however a future minimum ratio of 100% is expected, as proposed in the legislative proposal published by the European Commission on November 23, 2016. Furthermore, the final weights for the cash factor have not been disclosed by the regulator yet, the factors applied for the NSFR figures above have been taken from NSFR-templates of the Short-Term Exercise (STE) of the ECB. BAWAG Group shows a stable, but slightly improving NSFR, reflecting the deposit based funding structure of BAWAG Group.

15.9.3 ILAAP Performance

Indicator	June 30, 2017		December 31, 2016	December 31, 2015
	Result	Limit		
	(in € million)		(in € million)	
FACE (liquidity buffer)	2,116	1,000	3,398	2,361
Own issues concentration	1,067	1,250	898	740
ICAAP structural LiRisk	22	120	17	5
	(in months)		(in months)	
Time to wall	> 12	6	> 12	> 24

Source: Company information.

Within the framework of its internal liquidity adequacy assessment process, BAWAG Group has defined a series of key performance indicators to measure its liquidity risks. These indicators include the minimum liquidity buffer (FACE – Free available cash equivalent), measures of funding concentration risk (own issues concentration), the risk of an increase of refinancing costs (structural liquidity risk) and the liquidity stress testing to determine the survival period under stress assumptions.

The FACE metric describes the liquidity buffer in excess of minimum regulatory (i.e. LCR) and internal requirements and reflects the liquidity position of BAWAG Group. The own issues concentration determines the maximum amount of own issues maturing within a rolling 12 months horizon. Concentration risks increased due to the purchase of IMMO-BANK AG and the issuance of covered bonds. The structural liquidity risk measures the impact of increased funding costs based on existing or expected liquidity gaps. The liquidity stress tests determine the bank's survival period ('time-to-wall'), expressed in months, assuming different liquidity stress scenarios, which vary in severity and length. BAWAG Group applies stress scenarios with a duration of up to twelve months, whereby a time-to-wall metric of >12 months indicates that the bank has sufficient liquidity reserves to cover liquidity gaps beyond this horizon.

16 TRANSACTIONS AND RELATIONSHIPS WITH RELATED PARTIES

16.1 Overview

The following legal relationships existed between the companies of BAWAG Group and related parties in the financial years ended December 31, 2016, 2015 and 2014, respectively, and in the six-month period ended June 30, 2017, as well as until the date of this Prospectus. Business relationships between the Company and other companies of BAWAG Group (the effects have been eliminated as part of the preparation of the Audited Combined Financial Statements) are not included. Related parties pursuant to IAS 24 include those entities with whom the Company forms an affiliated group or in which it holds an interest that enables it to either exercise a significant influence over the business policy of the associated company or joint control over the business policy of the joint venture, as well as the principal shareholders in the Company, including their affiliates. Further information, including quantitative information, of related party transactions is contained in BAWAG Group's notes to its Audited Combined Financial Statements which are included in "*29 Financial Information*" of this Prospectus.

In addition, related parties also include the members of the Management Board and Supervisory Board and close members of their families, as well as those entities over which the members of the Management Board or their close family members are able to exercise a significant influence or in which they hold a significant share of voting rights.

Certain relationships with such related parties, including the service agreements with the members of the Management Board and compensation arrangements for the members of the Supervisory Board are described under "*21.2.4 Management Board Compensation*", "*21.3.5 Supervisory Board Compensation*" and "*21.5 Certain Information on the Members of the Management Board and the Supervisory Board; Conflict of Interest*".

16.2 Transactions and Relationships with the Selling Shareholders and their Affiliates

16.2.1 Deconsolidation Agreements

The Cerberus Shareholders and the Company as well as the GoldenTree Shareholders and the Company entered into two separate Deconsolidation Agreements (*Entherrschungsverträge*) on October 6, 2017.

In the Deconsolidation Agreements, the Cerberus Shareholders and the GoldenTree Shareholders undertake vis-à-vis the Company, in respect of the election and dismissal of Supervisory Board members, in respect of any vote of no-confidence, and in respect of management matters (*Geschäftsführungsmaßnahmen*) that are brought before the general meeting of shareholders of the Company, to exercise their respective voting rights deriving from shares which the Cerberus Shareholders and the GoldenTree Shareholders hold in the Company at the time of effectiveness of the Deconsolidation Agreements or in the future (including shares held by any entity controlled by the Cerberus Shareholders and the GoldenTree Shareholders, as applicable) only up to an aggregate maximum number equal to the voting rights of the relevant other shareholders present and entitled to vote at any given shareholders meeting of the Company minus 10,000 votes (which number of votes shall be, in the event of an increase or a reduction in capital of the Company, be adjusted accordingly on a *pro rata* basis) and not to vote for the appointment (election) of Supervisory Board members who are not independent of Cerberus Capital Management LP or GoldenTree Asset Management LP. With regard to the GoldenTree Shareholders, the aforementioned self-restraint undertakings only apply if and to the extent the GoldenTree Shareholders combine sufficient voting rights so that they would, taken as a whole, be deemed to be the largest single shareholder (provided that the Cerberus Shareholders are deemed to be one single shareholder in this context).

In addition, the Cerberus Shareholders and the GoldenTree Shareholders undertake vis-à-vis the Company (i) not to coordinate with each other the exercise of their voting rights in general meetings of the Company or other forms of influence on the management of the Company or its group companies, and (ii) not to influence the composition or conduct of any corporate board in BAWAG Group other than by way of exercising the nomination rights set forth in the articles of the Company (see "*21.3.1 Election, Delegation, Duties and Procedures of the Supervisory Board*"), participating in general meetings (including the exercise of the statutory right to speak up, ask questions and submit voting proposals to general meetings) and voting in the general meetings in accordance with the terms of the Deconsolidation Agreements.

The Deconsolidation Agreements will apply for the first time with respect to the (ordinary) general meeting of the Company taking place after completion of the Offering and will continue to apply until the end of the fifth ordinary general meeting of the Company, but in any event for a period of five years after completion of the Offering, excluding the right for ordinary termination. Afterwards, the Deconsolidation Agreements are automatically extended until the end of the next ordinary general meeting unless terminated by either party by giving six months' prior notice. The right to terminate for serious cause (*Kündigung aus wichtigem Grund*) remains unaffected. If shares in the Company are to be transferred by the Cerberus Shareholders or the GoldenTree Shareholders, respectively, to an affiliate, or other entity controlled by Cerberus Capital Management LP or GoldenTree Asset Management LP, respectively, such transfer may only be effected if the transferee accepts to become a party of the relevant Deconsolidation Agreement and to be bound by it in the same manner and for the same duration as the transferor (and to impose the same on any further transferee controlled by Cerberus Capital Management LP or GoldenTree Asset Management LP, respectively, in the future until the termination of the Deconsolidation Agreement).

16.2.2 Agreement on the Assumption of Offering-related Costs and Risks

On October 6, 2017, PSH and the Company entered into an agreement providing for an indemnity by PSH for the benefit of the Company against certain liability claims in connection with the Offering ("**Cost Coverage Agreement**"). By virtue of an accession agreement, the Cerberus Shareholders and the GoldenTree Shareholders are expected to accede to the Cost Coverage Agreement at or prior to Pricing. Pursuant to the Cost Coverage Agreement and the accession agreement, PSH will reimburse the Company for certain costs incurred in connection with the preparation and the execution of the Offering, and, if and to the extent PSH fails to make such reimbursement, the Cerberus Shareholders and the GoldenTree Shareholders will be required, on a pro rata basis, to reimburse the Company for these costs. The costs to be reimbursed include, *inter alia*, legal, auditor and other advisor fees and the cost of insuring against liability claims. The cost reimbursement obligation of PSH remains unaffected if the Offering is postponed or cancelled. The Company has agreed, upon indemnification in accordance with the Cost Coverage Agreement and to the extent legally permissible, to assign recourse claims that the Company may have against third parties to PSH. The Company and PSH also agreed to use their best efforts in obtaining insurance against potential liability claims in connection with the Offering which is intended to cover the Company, its subsidiaries, PSH, the Cerberus Shareholders and the GoldenTree Shareholders.

16.2.3 Facility Agreement for Intercompany Loans

On April 24, 2017, PSH and the Company entered into a facility agreement for intercompany loans. The agreement provides for a euro term loan facility in the amount of € 150 million. As of October 31, 2017, the loans drawn but not yet repaid (including accrued interest) are expected to amount in aggregate to € 138.6 million. The rate of interest on each loan is the sum of EURIBOR for the respective interest period and a margin of 3.50% per annum. All loans must be repaid no later than on June 30, 2018. However, if PSH receives proceeds from the Offering, all outstanding loans become due and payable with immediate effect and the Company's commitment is cancelled. Against this backdrop, the Company expects that the outstanding loans will be repaid in full (together with accrued interest) on or about October 31, 2017, i.e., on the first business day after the delivery of the Offer Shares against payment in the course of the Offering.

16.3 Transactions and Relationships with PSH, Cerberus, Non- Consolidated Subsidiaries, Associates and Joint Ventures of BAWAG P.S.K.

BAWAG Group has business dealings according to IAS 24 with PSH, Cerberus affiliates, non-consolidated subsidiaries, associates and joint ventures of BAWAG Group, *inter alia*, with BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria AG, both associates consolidated at equity. Due to its increased activity in the NPL business, BAWAG Group has extended a number of loans to Cerberus affiliates, who are active participants in this market, which totaled € 724 million, € 851 million, € 1,134 million and € 1,147 million as of June 30, 2017, December 31, 2016, 2015 and 2014, respectively. These loans are almost entirely included in the International Business segment. In addition, there are further credit and other relationships with PSH and Cerberus affiliates. For further information on the transactions and relationships with these entities, see F-15 et seq., F-98 et seq., F-220 et seq. and F-325 et seq.

16.4 Relationships with Members of the Management Board and the Supervisory Board

For an overview regarding the compensation, shareholding and share-based compensation of the members of the Management Board and the Supervisory Board, see "*21.2.4 Management Board Compensation*", "*21.3.5 Supervisory Board Compensation*" and "*21.5 Certain Information on the Members of the Management Board and the Supervisory Board; Conflict of Interest*". as well as notes 36 and 37 (respectively) to BAWAG Group's combined financial statements for the years ended December 31, 2016, 2015 and 2014, which are included in "*29 Financial Information*". In some instances BAWAG P.S.K. extended loans or granted loan commitments on standard terms and conditions to members of its management board, its supervisory board, the Management Board or the Supervisory Board of the Company, or to relatives of any of these persons, in each case approved by BAWAG PSK's risk and credit committee as required at that time.

In respect of the Management Board and the Supervisory Board of the Company, only a mortgage loan to Mr. Stefan Barth and his wife is currently outstanding (see "*21.5.4 Conflicts of Interest*").

17 REGULATION AND SUPERVISION

17.1 Introduction

The operations of BAWAG Group throughout Europe are regulated and supervised by the relevant authorities in each of the jurisdictions where it conducts business. Such regulation relates to licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organizational and reporting requirements. It affects the type and scope of the business BAWAG Group conducts in a country and how it structures specific operations.

In reaction to the crisis in the financial markets, the regulatory environment has undergone and is still undergoing significant changes. In response to the global financial crisis and the European sovereign debt crisis and in an effort to establish a European banking union and strengthen the resilience of the European banking sector, the EU and the Austrian legislature have adopted (or still draft or negotiate) a number of legal acts to increase regulatory requirements for EU banks which directly affects and will affect the Company, its subsidiaries and BAWAG Group as a whole.

On November 4, 2014, the SSM has been established within the eurozone as a first major pillar of the European banking union and primary prudential supervisory has moved from the national competent authorities such as the FMA to the ECB. Since then, the ECB directly supervises significant credit institutions and significant groups of credit institutions under a parent institution or a parent financial holding company in the eurozone, including BAWAG Group, while overseeing the supervision by national supervisors of less significant institutions and groups. The SSM and the supervision by the ECB are based on Council Regulation (EU) No 1024/2013 of October 15, 2013 conferring specific tasks to the ECB concerning policies relating to the prudential supervision of credit institutions (the Single Supervisory Mechanism Regulation or "**SSM Regulation**").

In the following, relevant legislation and supervisory activities are summarized and grouped around licensing and supervision, capital requirements, bank resolution, tax and market infrastructure. None of the following shall represent a complete presentation of legislative developments in the EU, Austria or any other relevant jurisdiction in which BAWAG Group is active.

17.2 Overview: Regulation and Supervision of BAWAG Group

17.2.1 Licenses and Competent Supervisory Authorities

Five subsidiaries of the Company, namely BAWAG P.S.K., easybank, BAWAG P.S.K. Wohnbaubank Aktiengesellschaft ("**Wohnbaubank**"), IMMO-BANK and start:bausparkasse, are authorized to conduct banking business as set forth in the BWG and qualify as credit institutions for purposes of the BWG and the CRR. Together with the Company which qualifies as a financial holding company, these five banks are subject to comprehensive regulation and supervision by the ECB and the FMA.

As a "significant" group of institutions under a parent financial holding company in the eurozone for purposes of the SSM Regulation, BAWAG Group is directly supervised by the ECB. Supervisory powers of the ECB extend to the Company as the ultimate parent financial holding company of BAWAG Group and its five banking subsidiaries: (i) BAWAG P.S.K., (ii) easybank, (iii) Wohnbaubank, (iv) IMMO-BANK and (v) start:bausparkasse. The ECB is responsible and competent for most tasks of prudential supervision, in particular the authorization and the withdrawal of authorizations of credit institutions, the assessment of persons that intend to acquire qualifying holdings in credit institutions and ensuring compliance by credit institutions with prudential requirements in the areas of own funds, capital requirements, large exposure limits, liquidity, leverage, reporting, internal governance and control arrangements, risk management, remuneration policies and practices and internal capital adequacy assessment processes.

Currently, supervisory powers of the ECB still extend to PSH which still is the sole shareholder of the Company and also qualifies as a financial holding company. At or around Pricing, PSH is expected to cease to be the majority shareholder of the Company, and, therefore, BAWAG P.S.K. and the Company expect that supervision by the ECB will, in the future, no longer extend to PSH.

The FMA is the principal supervisor of BAWAG Group for all regulatory matters to the extent not supervised by the ECB. These include the rules on organizational aspects and business conduct when providing investment services, the regulation of payment services, anti-money laundering and the prevention of terrorist financing, as well as certain special areas of banking regulation, such as those related to the issuance of covered bonds (*Pfandbriefe, Kommunalschuldverschreibungen, fundierte Bankschuldverschreibungen*) and the supervision of Austrian building societies (*Bausparkassen*). In addition, the FMA also participates in the Joint Supervisory Team established by the ECB for the supervision of BAWAG Group. As a result, the FMA still plays a significant role in the regulation and supervision of BAWAG Group.

The ECB and the FMA have extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, to impose monetary and other sanctions, to request the replacement of members of a bank's management or supervisory board, or to withdraw the license of a bank.

17.2.2 Consolidated Supervision

Supervision by the ECB and the FMA is not restricted to individual credit institutions on a solo basis, but extends, on a consolidated basis, also to all credit institutions and other relevant entities (such as financial institutions, asset management companies and ancillary services undertakings) that are subsidiaries of the same parent institution or parent financial holding company in the EU. The Company qualifies as a parent financial holding company in a member state as well as an EU parent financial holding company within the meaning of the CRR. The Company, its five banking subsidiaries BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK and start:bausparkasse, as well as certain other subsidiaries form a regulatory banking group (*Kreditinstitutsgruppe*) (the "**BAWAG Banking Group**") which is subject to consolidated supervision by the ECB and the FMA. Supervision on a consolidated basis at the level of BAWAG Banking Group captures capital requirements, limitations on large exposure, liquidity, organizational and risk management requirements and public disclosure obligations. Until at or around Pricing, the entities of BAWAG Banking Group will continue to form a regulatory banking group together with PSH which is referred to as 'PSH Group' in this Prospectus. However, at or around Pricing, PSH is expected to cease to be the majority shareholder of the Company, and, therefore, BAWAG P.S.K. and the Company expect that supervision by the ECB and the FMA will, in the future, no longer extend to PSH Group.

The BAWAG Banking Group makes use of the waiver option under Article 113 para. 6 CRR which allows to assign a risk weight of 0% to certain intragroup risk exposures for the purposes of calculating credit risk and large exposures. Furthermore, BAWAG Group makes use of the waiver option under Article 425 para. 1 CRR pursuant to which liquidity inflows from deposits may be exempted from the relevant limits when such deposits have been placed by a parent or subsidiary institution of the relevant credit institution, i.e., where the deposits stem from other group companies.

17.2.3 Banking Legislation

On June 27, 2013, the CRD IV/CRR package was published in the Official Journal of the EU. By way of the CRD IV/CRR package, the EU sought to implement Basel III. It was also a fundamental step to achieve the "single rule book", a single set of harmonized prudential rules to achieve a unified regulatory framework for the EU financial sector that would complete the single market in financial services.

Most parts of the CRR, is a European regulation directly applicable in all EU member states, as well as the amendments to the BWG implementing the CRD IV into Austrian law entered into force on January 1, 2014 and replaced the previous regulatory framework. The CRR now sets out the supervisory requirements applicable to BAWAG Group relating to the quality of own funds, capital requirements for certain risks (such as credit risk, counterparty credit risk, market risk and operational risk), monitoring and control of large exposures, leverage, liquidity, securitizations, public disclosure and central aspects of consolidated supervision. Certain other requirements applicable to BAWAG Group, including those with respect to capital buffers, organizational aspects and risk management requirements are set forth in the BWG and certain additional Austrian regulations as well as guidelines (circulars and minimum standards) issued by the FMA.

start:bausparkasse is a building savings association (*Bausparkasse*) regulated by the Austrian Federal Act on building savings associations (*Bausparkassengesetz* – the "**BSpG**"). Its business activities are limited to deposit taking, extending home building loans and conducting certain related banking business. Furthermore, the BSpG imposes additional regulations on the use and safeguarding of deposits.

On November 23, 2016, and following a broader review of the rules currently in place, the European Commission published a proposal to amend the CRD IV/CRR package, the SRM Regulation and the BRRD. As part of this proposal, a binding leverage ratio of 3% of Tier 1 capital is proposed in order to prevent institutions from excessively increasing their leverage. In addition, it is proposed that institutions will be required to meet, amongst others, a binding NSFR, more risk-sensitive capital requirements for counterparty credit risk, market risk and exposures to central counterparties and tighter regulation of large exposures. With regard to the recovery and resolution framework, the European Commission proposes, *inter alia*, to implement the FSB's new standard on a TLAC applying to global systemically important banks and to change the ranking of unsecured debt instruments in the insolvency hierarchy. These proposals are now subject to the EU co-decision process and will likely be subject to further changes over the coming months.

17.2.4 Legislation governing investment services

The provision of investment services by some of the credit institutions of BAWAG Group to their clients currently is governed by the Austrian Federal Act on the Supervision of Investment Services (*Bundesgesetz über die Beaufsichtigung von Wertpapierdienstleistungen* – the "**WAG 2007**"). For information on upcoming reforms of the current legal framework, see "*17.11.3 New Rules on Markets in Financial Instruments*". The WAG 2007 contains, among other things, organizational requirements as well as conduct of business rules that must be met when receiving, transmitting and/or executing client orders in relation to securities and other financial instruments, proprietary trading, providing underwriting and other issuance-related services, managing client portfolios and providing investment advice.

17.2.5 Legislation governing the issuance of covered bonds

Covered bonds (*fundierte Bankschuldverschreibungen*) are bonds that are issued by banks in accordance with the provisions of the Covered Bonds of Banks Act (*Gesetz betreffend fundierte Bankschuldverschreibungen*). They have to be secured (covered) by a cover pool of assets which has to meet the requirements set out in the law and the articles of association of the issuing bank. A government commissioner must be appointed in the interest of the holders of the covered bonds. The issuing bank may not dispose of any asset in the cover pool without first obtaining the consent of the government commissioner. In the event that the issuer becomes insolvent, the holders of the covered bonds have a first claim on the respective cover pool. The cover pool may contain, among other things, claims and securities if they are suitable for the investment of money held in trust for a ward of court, mortgages, claims against and securities issued (or guaranteed) by certain public sector entities.

17.2.6 Level 2 and 3 legislation in the EU

Furthermore, banking regulation in Europe is to a large extent based on legislative acts and papers that have been issued at a European level with the purpose of implementing or complementing the rules contained in the CRR, the CRD IV and other so-called "basic acts" and to ensure a consistent application of EU law by the competent supervisory authorities (so-called level 2 and 3 measures). Among these acts are delegated and implementing regulations enacted by the European Commission (level 2) as well as regulatory and technical standards, guidelines, recommendations and questions and answers (Q&A) developed and issued by the European supervisory authorities, in particular the EBA and the ESMA (level 3).

17.2.7 Consumer Protection Legislation

There is no uniform legal framework as regards consumer protection law in Austria. However, the general provisions on consumer protection are governed by the Austrian Consumer Protection Act (*Bundesgesetz, mit dem Bestimmungen zum Schutz der Verbraucher getroffen werden* – the "**KSchG**"). The KSchG contains general mandatory requirements for contracts with customers that aim to ensure fair and balanced treatment that is adequate for consumers and protects the rights of consumers to withdraw from agreements under certain circumstances.

Furthermore, sector-specific provisions on consumer protection exist for credit institutions and certain types of contracts entered into by banks. Amongst others, the Austrian Act on Payment Services (*Bundesgesetz über die Erbringung von Zahlungsdiensten* – the "**ZaDiG**") implementing the EU Directive No 2007/64 on Payment Services, includes specific consumer protection provisions and information obligations towards consumers in relation to the provision of payment services.

In addition, the Austrian Act on Consumer Payment Accounts (*Bundesgesetz über die Vergleichbarkeit von Entgelten für Verbraucherzahlungskonten, den Wechsel von Verbraucherzahlungskonten und den Zugang zu Verbraucherzahlungskonten mit grundlegenden Funktionen* – the "**VZKG**") – based on the EU Directive No 2014/92 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features – *inter alia* provides for additional contractual transparency and information duties related to the costs of bank accounts, makes it easier for consumers to switch their payment accounts from one bank to the other and provides for a right of consumers to get access to a basic payment account.

The Austrian Act on Consumer Loans (*Bundesgesetz über Verbraucherkreditverträge und andere Formen der Kreditierung zu Gunsten von Verbraucher* – the "**VKrG**") – transposing the EU Directive No 2008/48 on credit agreements for consumers into Austrian law – stipulates information and other duties regarding the granting of consumer loans and provides a framework for consumer loan agreements. Similar provisions are provided for in the Austrian Mortgage and Real Property Act (*Hypothekar- und Immobilienkreditgesetz*) – implementing transposing Directive No 2014/17/EU on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1903/2010.

Further, the Austrian Act on Distance Financial Services (*Bundesgesetz mit dem ein Bundesgesetz über den Fernabsatz von Finanzdienstleistungen an Verbraucher erlassen wird und das Konsumentschutzgesetz, das Versicherungsvertragsgesetz sowie das Wertpapieraufsichtsgesetz geändert werden* – the "**FernFinG**") – implementing EU Directive No 2002/65 concerning the distance marketing of consumer financial services – relates to the information obligations of credit institutions towards customers in the context of financial services provided by means of telecommunication, and the granting to consumers of rights of withdrawal from agreements for such services.

Breaches of consumer protection provisions may in certain circumstances result in substantial administrative fines against the credit institution and/or its directors or other responsible persons. Further, consumers may file civil law claims against credit institutions to enforce such claims. While there is no formal procedure for class-actions under Austrian law, a group of consumers may raise claims in relation to the same breach and the same general facts in one single lawsuit (for example, this has been the case for claims for repayment of excessive interest on loans).

Further, certain consumer protection agencies and associations (such as the Chamber of Labor (*Arbeiterkammer*) and the Consumer Information Association (*Verein für Konsumenteninformation*)) may – and frequently do – file actions for injunction concerning breaches of consumer protection rules by credit institutions and other enterprises (*Verbandsklagen*). In most cases, such lawsuits claim that certain terms and conditions used by a credit institution violate consumer protection or other mandatory laws and regulations and must no longer be applied by the credit institution, and/or that credit institutions shall terminate a business practice violating such laws and regulations. It is also common for consumer protection agencies and associations to argue in such lawsuits that the judgement should be published in a newspaper to make the breach evident for consumers. In recent years, such lawsuits have resulted in numerous terms and conditions used by most credit institutions being declared void. Such terms and conditions have included, amongst others, the calculation of interest rates for saving deposits and loans, certain fees charged to customers for banking services, the ability of a credit institution to change terms and conditions unilaterally as well as changes where the consent is deemed to be given if the customer does not object within a certain time period and liability provisions to the disadvantage of the customer. While in such lawsuits filed by consumer protection agencies and associations no payment claims of consumers can be raised, the court decisions resulting from such lawsuits often serve as precedents for direct claims raised by consumers; thus credit institutions usually make payments or negotiate settlements with customers based on such precedents to avoid further litigation.

17.3 Capital Requirements

17.3.1 Levels of Supervision

Capital requirements must be complied with by all credit institutions of BAWAG Group, i.e., BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK and start:bausparkasse, on an individual level. In addition, BAWAG P.S.K. as the largest credit institution of BAWAG Banking Group also has to observe compliance of the capital requirements by BAWAG Banking Group on a consolidated or group level. This means that the own funds and the risk-weighted assets of all group members, including the Company, are taken into account when calculating the relevant capital ratios for BAWAG Banking Group. Compliance with regulatory capital requirements on an individual bank and group level is monitored by the ECB in its capacity as competent or "consolidating" supervisor.

17.3.2 Basel III and CRD IV/CRR

Basel III has been implemented into European law by the CRD IV/CRR package which came into effect on January 1, 2014, with some of the regulatory requirements gradually phasing in through January 1, 2019. The CRD IV/CRR package increased the required quality and quantity of own funds, in particular the capital required to be held against derivative positions, and introduced a new liquidity framework as well as a leverage ratio which must be reported to the supervisory authorities. Capital buffers have to be maintained on top of minimum own funds requirements. The CRD IV/CRR package also addresses, *inter alia*, capital requirements relating to counterparty default risk and large exposure limits.

17.3.3 Minimum Capital Requirements (Pillar 1)

The minimum capital requirements (so-called 'Pillar 1 requirements') for EU and thus Austrian credit institutions are primarily set forth in the CRR. The CRR requires each credit institution to maintain an adequate level of regulatory capital in relation to its risks. Relevant risks include, in particular, credit risk, market risk and operational risk (including, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). CET1 capital forms the key component of a credit institution's regulatory capital for compliance with the capital requirements under the CRR. CET1 capital primarily consists of share capital, retained earnings and other reserves, subject to certain regulatory adjustments. Another component of regulatory capital is AT1 capital which includes, for example, certain unsecured subordinated perpetual capital instruments and related share premium accounts. Generally, the terms and conditions of all instruments recognized as CET1 capital must require that the principal amount of the instruments will be written down, or converted into CET1 capital when the CET1 capital ratio of the relevant institution falls below a minimum of 5.125 % (or such higher level as the issuing institution may determine), although regulators may require an earlier conversion, for example for stress-testing purposes. CET1 capital and AT1 capital together constitute "Tier 1" capital. Tier 1 capital requirements are aimed at ensuring the ability to absorb losses on a "going concern" basis. T2 capital forms the lower tier of the regulatory capital and generally consists of long-term subordinated debt instruments with loss absorption capacity only on a "gone concern" basis. Tier 1 capital and T2 capital together constitute the "own funds" of a credit institution. The CRR gradually excludes certain existing capital instruments (which have been issued in the past) from their eligibility as own funds (so-called 'phasing out') or reclassifies those instruments to a lower own funds quality. For example, existing hybrid capital instruments will, over time, be phased out as AT1 capital. Furthermore, the former Tier 3 capital is no longer recognized as own funds under the CRR.

The minimum requirements for Tier 1 capital amount to 6% since January 1, 2015. The total capital ratio without capital buffers has remained at 8% of risk-weighted assets.

17.3.4 Capital Buffers

The introduction of capital buffers is being addressed in the CRD IV and, consequently, has been implemented in Austria into the BWG. All capital buffers have to consist of CET1 capital. Since the beginning of 2016, the BWG requires Austrian credit institutions to build up a permanent capital conservation buffer of 2.5% of risk-weighted assets shall (in annual steps of 0.625%). Furthermore, the following additional capital buffers may be prescribed by the national legislators or the supervisory authorities: (a) a countercyclical capital buffer of up to 2.5% (in annual steps of 0.25%) of risk-weighted assets generated in the respective EU member state (for Austria, the relevant countercyclical capital buffer rate has been set by the FMA at 0% as of 2017); (b) a systemic risk buffer (for Austrian credit institutions, the systemic risk buffer may be set between 1 and 2% and is relevant since January 1, 2016; for BAWAG Banking Group, a systemic risk buffer has been set by the FMA at 1% and has to be maintained in the following steps: as of 2016: 0.25%, as of 2017: 0.5% and as of 2018: 1%), and further (c) a buffer for globally systemically important institutions (which does not apply to BAWAG Group) and (d) a buffer for other systemically important institutions (which generally applies to BAWAG Group, but is not materially relevant since the systemic risk buffer is higher than the buffer for other systemically important institutions and only the higher of those two buffers is applied).

The introduction of capital buffers is intended to improve the stability of banks and the entire financial market by increasing the loss absorption capacity of institutions in times of crisis. A broader catalogue of supervisory measures available to the FMA and changes in administrative penalties are intended to contribute to the strengthening of the banking, securities and financial conglomerates supervision and to preventing violations of regulatory requirements.

17.3.5 Supervisory Review and Evaluation Process (Pillar 2)

Furthermore, the ECB may impose capital requirements on individual significant credit institutions within the SSM that are more stringent than the statutory minimum requirements set forth in the CRR. Such power is generally used by the ECB on a yearly basis as part of the so-called SREP during which the supervisory authorities review a bank's compliance with the CRR and the relevant national legislation implementing the CRD IV, in the case of Austria the BWG.

As part of the SREP, the competent supervisory authority (in case of BAWAG Banking Group, the ECB) examines the arrangements taken by an institution to comply with the provisions and assesses the risks to which the institution is or might be exposed and the (systemic) risks that an institution poses. In addition to credit, market and operational risks, the SREP also includes a review of liquidity risk management, interest rate risk arising from non-trading activities, the risk of excessive over-indebtedness, concentration risks, the results of stress tests, the impact of diversification effects and how such effects are factored into the risk measurement system, the business model of the institution, governance arrangements, the corporate culture, and the ability of members of the management body to perform their duties. The frequency and intensity of the review and evaluation will be determined by the supervisory authority having regard to the size, systemic importance, nature, scale and complexity of the activities of the institution concerned, taking into account the principle of proportionality. With a view to standardizing the SREP throughout the EU, the EBA published on December 19, 2014 its Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2014/13). These guidelines regulate in detail the categorization of institutions, the monitoring of key indicators for the early identification of changes in financial condition or in risk profile, the analysis of the business model, the assessment of internal governance and institution-wide control arrangements, the evaluation of capital risks and adequacy, the evaluation of liquidity risks and adequacy, the summary of the overall assessment and the regulatory measures implemented to mitigate the risks that have emerged. Since January 1, 2016, the new guidelines should be applied by all European banking supervisors, including the ECB.

At the end of the review process, the competent supervisory authority takes a SREP decision in relation to each relevant bank setting out, depending on the outcome of the SREP, specific capital and liquidity requirements for each affected bank. Any additional bank-specific capital requirements resulting from the SREP are referred to as "Pillar 2" requirements and must be fulfilled in addition to the statutory minimum capital requirements and capital buffers. The "Pillar 2" requirement must be met with CET1 capital. Also following the SREP, the ECB may communicate to individual banks an expectation to hold a further "Pillar 2" guidance. The ECB has stated that it expects banks to meet the "Pillar 2" guidance although it is not legally binding and failure to meet the "Pillar 2" guidance does not automatically trigger legal action. Finally, also based on the outcome of the SREP, the competent supervisory authority may take a range of other measures in response to shortcomings in a bank's governance and risk management processes as well as its capital or liquidity position, such as prohibiting dividend payments to shareholders or distributions to holders of regulatory capital instruments.

17.3.6 Comprehensive Assessment Conducted by the ECB and EU-wide Stress Tests Performed by the EBA

Prior to assuming its role as the primary prudential supervisory authority for the eurozone in November 2014 within the framework of the SSM, the ECB conducted a Comprehensive Assessment of 130 major European banks, including BAWAG Group. Banks deemed significant as defined in the SSM Regulation and therefore directly supervised by the ECB (including BAWAG Group) were subject to the Comprehensive Assessment. The Comprehensive Assessment aimed to base the launch of the SSM on a solid ground in terms of providing greater transparency regarding banks' balance sheets by ensuring a uniform testing methodology across Europe. The Comprehensive Assessment was carried out in collaboration with the EBA, the ESRB and the national competent authorities of the member states that participate in the SSM. Independent third parties including auditors were involved at all levels.

The assessment consisted of three interlinked pillars: (a) a supervisory risk assessment to review, both quantitatively and qualitatively, key risks such as liquidity, leverage and refinancing; (b) the AQR to enhance the transparency of bank exposures by reviewing the quality of assets held by banks, including a review of whether the valuation of assets and collateral and related provisions was adequate; and (c) a stress test, the purpose of which was to test the resilience of bank balance sheets in the event of adverse market conditions.

The stress test conducted under the Comprehensive Assessment was part of the mandate of the EBA, in cooperation with the ESRB, the ECB and the European Commission, to conduct stress tests for the EU as a whole by looking at a sample of 123 banks in the EU (including BAWAG Group) at the highest level of consolidation, and using the same methodology, scenarios and assumptions. The aim of the mandate was to conduct a rigorous assessment of the resilience of the banks under stressed conditions and to provide supervisory authorities, market participants and institutions with consistent data allowing them to compare the resilience of various banks within the EU in order to guarantee the proper functioning and integrity of the financial markets and to ensure the stability of the financial system in the EU, and to monitor and assess market developments as well as identify trends, potential risks and vulnerabilities in supervision at the micro level (micro-prudential supervision). Banks not included in the EBA's test sample but subject to the Comprehensive Assessment were tested using the same methodology and parameters as part of the Comprehensive Assessment conducted by the ECB.

On October 26, 2014, the ECB published the results of the Comprehensive Assessment. As regards BAWAG Group, no shortfall of capital in relation to the capital thresholds set (8% CET1 ratio for the baseline scenario and 5.5% for the adverse scenario) has been determined in the stress tests conducted as part of the Comprehensive Assessment.

The EBA is required to at least annually consider whether it is appropriate to carry out EU-wide assessments of the resilience of financial institutions. However, in 2015, instead of a stress test, EBA conducted a transparency exercise similar to the one carried out by it in 2013. The results were published in November 2015 and included detailed bank-to-bank data on capital positions, risk exposure amounts and asset quality on 105 banks from 21 countries of the EEA. In 2016, 51 European Banks participated in the EU-wide stress test conducted by the EBA. It covered over 70% of the national banking-industry assets in the eurozone. BAWAG Group was not subjected to the EBA's 2016 stress test. However, parallel to the

2016 stress test, the ECB conducted a banking supervisory SREP stress test for another 56 European banks, including BAWAG P.S.K. Both stress tests were designed to be used as a crucial piece of information for SREP in 2016, however, only the results of the EBA 2016 stress test were made publicly available. On December 21, 2016, the EBA has decided to carry out its next EU-wide stress test in 2018.

17.4 Leverage Ratio

As a complement to the risk-based capital requirements, Basel III also proposes a non-risk based leverage ratio. While the CRR, as currently in effect, does not require banks to comply with a specific leverage ratio, banks are required to report and publish their leverage ratios for a future assessment and calibration of the leverage ratio. Among the package of reforms published by the European Commission on November 23, 2016 (*see above*) is a proposal to introduce a binding minimum leverage ratio requirement of 3% of Tier 1 capital into the CRR.

17.5 Limitation On Large Exposures

The CRR further contains the primary restrictions on large exposures, which limit a bank's concentration of credit risks. In Austria, supplemental rules are included in the BWG, for example, certain exemptions (in addition to those contained in the CRR) from the applicability of limits to large exposures. Under the CRR, a credit institution's exposure to a customer (and any other customers affiliated with it) is deemed to be a "large exposure" if the value of such exposure is equal to or exceeds 10% of the institution's "eligible capital". All exposures to a single customer (and other customers affiliated with it) are aggregated for these purposes. In general, no large exposure may exceed 25% of eligible capital. "Eligible capital" for this purpose means the sum of Tier 1 capital and T2 capital, however, with T2 capital being capped at one third of the Tier 1 capital. If the customer is a credit institution or investment firm, the exposure is limited to the higher of (i) 25% of the eligible capital and (ii) € 150 million. Competent authorities may set a lower limit than € 150 million. Among the package of reforms published by the European Commission on November 23, 2016 (*see above*), is a proposal to restrict a bank's exposures to a single counterparty to 25% of its Tier 1 capital. Within BAWAG Group, the limitation on large exposures must be met by all credit institutions, in particular BAWAG P.S.K., on an individual level as well as by BAWAG Banking Group on a consolidated level (see "*13.14.5.3 Large Exposure Treatment of the French Mortgage Loan Portfolio*" on the large exposure treatment of the French Mortgage Loan Portfolio and the findings of the related on-site inspections).

17.6 Liquidity Requirements

The CRR introduced a binding LCR intended to ensure that credit institutions have an adequate stock of unencumbered high quality liquid assets that can be easily and quickly converted into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario. The required LCR is calculated as the ratio of a bank's liquidity buffer to its net liquidity outflows. Also, banks must regularly report the composition of the liquid assets in their liquidity buffer to their competent authorities. The LCR requirement is being gradually phased in through January 1, 2018, with a minimum required level of 80% in 2017 which will be increased to 100% in 2018. Details on the LCR requirement have been set forth by the European Commission in implementing legislation, which became applicable on October 1, 2015. The ECB supervises BAWAG Group's compliance with the LCR requirement both at the level of each credit institution and at the level of BAWAG Banking Group.

In addition, Basel III contains a proposal to introduce the NSFR to reduce medium- to long-term funding risks by requiring banks to fund their activities with sufficiently stable sources of funding over a one-year period. The CRR contains interim reporting requirements on stable funding but does not yet include substantive provisions relating to the NSFR. The package of reforms published by the European Commission on November 23, 2016 (*see above*) includes a proposal to introduce a binding NSFR into the CRR. According to this proposal, the NSFR is defined as the ratio of a bank's available stable funding relative to the amount of required stable funding over a one-year period. According to the proposal, banks must maintain an NSFR of at least 100%.

The ECB may impose on individual banks liquidity requirements which are more stringent than the general statutory requirements if such bank's continuous liquidity would otherwise not be ensured.

17.7 Investigative and Enforcement Powers of the Supervisory Authorities

17.7.1 Investigative Powers and Supervisory Audits

Under the SSM Regulation, the ECB may conduct investigations of banks and financial holding companies that it supervises, such as the Company and its banking subsidiaries. In particular, the ECB may request information, require the submission of documents, examine the books and records of the bank or the financial holding company and carry-out on-site inspections at the relevant entity's business premises. In particular, the ECB may audit BAWAG Group's compliance with requirements with respect to which it supervises BAWAG Group, such as those set forth in the CRR and the BWG.

The FMA is also afforded an array of powers to investigate and supervise Austrian banks. These powers include the power to require the delivery of certain information or reports or to instruct audits. The FMA may also conduct on-site inspections (with the help of the OeNB).

Further, the Austrian Federal Minister of Finance appoints a state commissioner (*Staatskommissär*) (and a deputy state commissioner) for credit institutions whose total assets exceed € 1 billion (thus in particular including BAWAG P.S.K.). The state commissioner (and the deputy state commissioner) must be invited to shareholder meetings, to the meetings of the supervisory board, of the audit committees and of executive committees of the supervisory board and may, *inter alia*, raise objections to resolutions and report to the supervisory authority. Such objections generally postpone the effectiveness of the resolution until a decision is issued by the supervisory authority.

17.7.2 Supervisory and Enforcement Powers

The ECB has a wide range of enforcement powers in the event it discovers any irregularities concerning adherence to requirements with respect to which it supervises BAWAG Group. Under the SSM Regulation, it may, for example, require BAWAG Group to hold additional own funds or meet higher liquidity requirements in excess of statutory minimum requirements, restrict or limit BAWAG Group's business; require the cessation of activities to reduce risk; require BAWAG Group to use net profits to strengthen its own funds, restrict or prohibit dividend payments to shareholders or distributions to holders of AT1 instruments; or remove the members of a bank's management or supervisory board from their office. To the extent necessary to carry out the tasks granted to it, the ECB may also require national supervisory authorities, such as the FMA, to make use of their powers under national law. If these measures are inadequate, the ECB may ultimately revoke a bank's license.

Furthermore, the ECB has the power to impose administrative penalties in case of breaches of directly applicable EU laws, such as the CRR, or of applicable ECB regulations and decisions. In addition, where necessary to carry out the tasks granted to it, the ECB may also require that the FMA initiates proceedings to ensure that appropriate penalties are imposed on the affected bank. Penalties imposed by the ECB or the FMA may amount to up to twice the amount of profits gained or losses avoided because of the violation, or up to 10% of the total annual turnover of the relevant entity in the preceding business year or such other amounts as may be provided for in relevant EU or Austrian law.

The FMA also retains a wide range of enforcement powers. Any bank operating in Austria that is subject to regulation and supervision by the FMA and which is found not to be in compliance with legal requirements may be subject to an order by the FMA, if there is reason to doubt such bank's ability to fulfil its obligations towards its customers. By such order, the FMA may in particular order the bank to remedy breaches of regulatory law (or otherwise impose fines), prohibit withdrawals of capital or profits from the bank (in whole or in part), appoint a government commissioner (*Regierungskommissär)* authorized to, *inter alia*, prohibit all business which could be prejudicial to the safety of the interests of the customers of the bank, prohibit further management of the bank by such bank's existing management board or prohibit (in whole or in part) further business of the bank altogether. Further, the FMA may impose substantial fines for breaches of Austrian regulatory provisions.

17.8 Financial Statements and Audits

As required by the Commercial Code, BAWAG P.S.K. and the Company prepare their respective non-consolidated financial statements in accordance with Austrian GAAP.

The Company's Audited Consolidated Financial Statements are prepared in accordance with IFRS. In addition, BAWAG P.S.K. is required to prepare consolidated financial statements in accordance with IFRS and applicable regulatory requirements under the BWG.

As PSH will cease to be the majority shareholder of the Company at or around Pricing, going forward BAWAG Group will be regulated and supervised up to and including the level of the Company. Compliance by BAWAG P.S.K. with the capital adequacy requirements and large exposure limits on the consolidated basis of BAWAG Group will be determined based upon the consolidated financial statements of BAWAG P.S.K.

Under Austrian law, both the unconsolidated financial statements as well as the consolidated financial statements of the Company and BAWAG P.S.K. are required to be audited annually by a certified public accountant, which, in case of BAWAG P.S.K., has to meet the requirements of a bank auditor (*Bankprüfer*) under the BWG. The audit report has to include an annex regarding compliance with certain regulatory provisions (*bankaufsichtsrechtlicher Prüfungsbericht*). The auditor of the Company is appointed each year by the shareholders' meeting upon an applicable proposal by the Supervisory Board of the Company. The auditor of BAWAG P.S.K. is appointed each year for the following financial year by the shareholders' meeting of BAWAG P.S.K. upon an applicable proposal by the supervisory board of BAWAG P.S.K. In relation to the appointment of BAWAG P.S.K.'s auditor, the FMA must be informed in writing thereof and may reject the auditor's appointment. The BWG requires that a bank's auditor inform the FMA of any facts that come to the auditor's attention which would lead it to refuse to certify or to limit its certification of the entity's financial statements or which would adversely affect the entity's financial position within two weeks as of its appointment. The auditor is also required to notify the FMA in the event of a material breach by management of the articles of association or of any other applicable law. The auditor is required to prepare an annual audit report (*Prüfungsbericht*) for submission to the entity's supervisory board, the FMA, the OeNB and the ECB.

On July 1, 2013, the Austrian Control of Accounting Act (*Rechnungslegungs-Kontrollgesetz,* "**RLKG**") entered into force. It ensures that financial information (annual reports as well as interim financial information) as well as certain other information published by entities having securities admitted to trading on a regulated market in Austria are compliant with national and international accounting standards. To this end, either the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung*), acting for the FMA, or the FMA directly, conducts audits either on a random basis or on a targeted basis when indications exist that accounting standards have been infringed. The FMA will issue a decree on any inaccuracies detected in the course of such audit which can be appealed before the independent Austrian Federal Court of Appeal (*Bundesverwaltungsgerichtshof*). In addition, inaccuracies detected may also be made public if the public interest to be informed about such findings overrides the respective entity's interest of keeping the findings confidential.

17.9 Recovery and Resolution

17.9.1 BRRD and its implementation in Austria

The BRRD has been implemented in Austria in particular by the BaSAG. The BaSAG and certain other amendments to Austrian law entered into force on and apply since January 1, 2015. Under the BaSAG, the FMA has been given the role of national resolution authority for Austria.

The BRRD and the BaSAG apply to credit institutions within the meaning of the CRR such as the five credit institutions which are part of BAWAG Group, i.e., BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK and start:bausparkasse, as well as financial holding companies that are part of a regulated banking group, such as the Company.

17.9.2 Establishment of the Single Resolution Mechanism

As of January 1, 2016, the SRM has been established within the eurozone which centralizes at a European level the key competences and resources for managing the failure of banks in the eurozone. As an EU member state the currency of which is the Euro, Austria also participates in the SRM. The SRM is based on the SRM Regulation. The SRM complements the SSM and applies to all banks and banking groups supervised within the SSM.

At the core of the SRM is the SRB which is a newly established agency of the EU with its headquarter in Brussels, Belgium. Competencies are shared between the SRB and the national resolution authorities of the participating EU member states. While the SRB is competent and responsible for all those credit institutions and their parent undertakings that are subject to direct supervision within the SSM by the ECB (which includes BAWAG Banking Group) or are part of a cross-border group active in the eurozone, the national resolution authorities, such as the FMA for Austria, remain competent for those banks which only operate nationally and are not subject to direct supervision by the ECB, provided their resolution would not involve any use of the SRF (*see below*).

17.9.3 Recovery and Resolution Planning; Early Intervention

Under the BaSAG, BAWAG P.S.K. is required to prepare, and update on an annual basis, a group recovery plan for BAWAG Banking Group describing how the group's financial stability could be restored in the event of a financial crisis. The recovery plan will be assessed by the ECB being the competent prudential supervisory authority for BAWAG Banking Group. And the ECB also enjoys extensive supervisory powers when it regards the recovery plan as being insufficient. On the contrary, it is the task of the SRB under the SRM Regulation to draw up a group resolution plan for BAWAG Banking Group and to regularly assess its resolvability. As part of its assessment, the SRB must identify and, where necessary and proportionate, has the power to address and remove any material impediments to resolvability. Similar to the powers of the ECB when assessing a bank's recovery plan, the SRB has the power to require a bank to limit its risk exposures or to divest specific assets to restrict or prevent the development of new or existing business lines or to require changes to legal or operational structures of the institution and the group, respectively.

The SRB (in cooperation with the ECB and the FMA) is granted powers to intervene at an early stage if problems arise, especially where the provisions of the CRR regarding the financial condition of the institution are infringed (early intervention measures). This includes, for instance, the power to demand that measures outlined in the recovery plan be implemented, managing directors be dismissed, creditor negotiations for debt restructuring be initiated, a shareholders' meeting be convened or changes be made to the operational or legal structures of the institution.

17.9.4 Resolution

The SRM Regulation and the BaSAG provide the resolution authorities with a toolset to react to a financial crisis of a credit institution in order to ensure the continuity of any critical functions, avoid significant adverse effects on financial stability, in particular by preventing contagion, protect public funds by minimizing reliance on extraordinary public financial support and protect depositors covered by a deposit guarantee scheme or investors covered by an investor compensation scheme or protect client funds and client assets (the so-called 'resolution objectives').

In the event that a credit institution of BAWAG Group or the Company meets the following conditions for resolution, the SRB is responsible for adopting a resolution scheme for resolving the relevant entity pursuant to the SRM Regulation:

- The entity is failing or likely to fail, i.e.:
  - The entity infringes, or there are objective elements to support a determination that the entity will, in the near future, infringe the requirements for continuing authorization in a way that would justify the withdrawal of its authorization by the ECB;
  - The assets of the entity are, or there are objective elements to support a determination that the assets of the entity will, in the near future, be less than its liabilities;
  - The entity is, or there are objective elements to support a determination that the entity will, in the near future, be unable to pay its debts or other liabilities as they fall due; or
  - The entity is about to receive certain forms of extraordinary public financial support;
- Having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by an IPS, or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments, would prevent the failure of the entity within a reasonable timeframe; and
- A resolution action is necessary in the public interest, i.e., it is necessary and proportionate for the achievement of the resolution objectives, and the achievement of these resolution objectives could not be guaranteed to the same extent by winding up the institution under normal insolvency proceedings.

Generally, resolution action in relation to a parent undertaking which is not a credit institution such as the Company may only be taken by the SRB where the afore mentioned conditions are met with regard to both that parent undertaking and one or more of its subsidiaries which are credit institutions. In situations where only one or more of the banking subsidiaries but not the parent undertaking itself meets the conditions for resolution, the SRB may nevertheless impose resolution measures on the parent undertaking, provided that the assets and liabilities of the subsidiary are such that their failure threatens the subsidiary institution or the group as a whole and resolution action with regard to the parent undertaking is necessary for the resolution of the subsidiary institutions or for the resolution of the group as a whole.

The European Commission and, to a lesser extent, the Council of the European Union, have a role in endorsing or objecting to the resolution scheme proposed by the SRB. The resolution scheme would be addressed to and implemented by the competent national resolution authorities, i.e., in Austria, the resolution scheme would be implemented by the FMA which has the necessary jurisdiction over the Company and the credit institutions of BAWAG Group.

Resolution measures that could be imposed upon a failing entity may include a range of measures including, in particular, the transfer of shares, assets or liabilities of the entity to another legal entity (such as a bridge institution or a third-party purchaser), the reduction, including to zero, of the nominal value of shares, the dilution of shareholders of a failing entity or the cancellation of shares outright, or the write-down, including to zero, of the principal amount or the outstanding amount or the conversion of AT1 capital instruments, T2 capital instruments and eligible liabilities into CET1 instruments of the resolved entity (the so-called "**bail-in**"). A reduction or write-down is possible in order to allocate losses to shareholders and creditors, whereas a conversion is only permissible for the purpose of the recapitalization of the failing entity or group to the extent sufficient to restore its viability or for the capitalization of a bridge institution. The sequence of reduction, write-down and conversion is subject to the general rule that instruments of the next higher rank may only be reduced or converted if the total reduction (e.g., the cancellation of the entity's shares) or conversion (e.g., a conversion of liabilities into CET1 instruments) of the previous rank(s) could not cover the aggregate amount by which a write-down or conversion is necessary.

Covered deposits (i.e., deposits up to € 100,000 which are subject to deposit protection (*see below*)) and secured liabilities, including covered bonds, as well as the following liabilities are excluded from bail-in: liabilities by virtue of the holding of client assets and client money, provided such client is in each case protected under the applicable insolvency law, liabilities by virtue of a fiduciary relationship provided that such client is in each case protected under applicable insolvency or civil law, liabilities to credit institutions with an original maturity of less than seven days, liabilities to operators or participants of payment and securities settlement systems with a residual maturity of less than seven days, liabilities to employees in relation to accrued salary, pension benefits or other fixed remuneration, liabilities to a commercial or trade creditor for services which are critical to the daily functioning of the entity's operations, liabilities to tax and social security authorities if preferred under applicable law and liabilities to DGS.

Pursuant to the BaSAG, any write-down (or conversion) of all or part of the principal amount of any capital or debt instruments included accrued but unpaid interest in respect thereof, in accordance with the creditor participation would not constitute an event of default under the terms of the relevant instruments. Consequently, any amounts written down (or converted) would be irrevocably lost and the holders of such instruments would cease to have any claims thereunder, regardless whether or not the entity's financial position is restored. Pursuant to the SRM Regulation and the BaSAG, the SRB and the FMA would be required ensure that, when applying the resolution tools, creditors do not incur greater losses than those they would have incurred if the relevant entity had been wound up under normal insolvency proceedings (the so-called "no creditor worse off" principle). If shareholders or creditors incur greater losses than those they would have incurred if the entity had been wound up under normal insolvency proceedings, the shareholder or creditor in question is entitled to payment of the difference from the competent resolution financing arrangement (*see below*).

In addition to the bail-in and the other resolution tools, the SRB and the FMA are authorized to change the management of an institution, assume control of the institution, appoint a resolution administrator, transform the institution into a stock corporation, temporarily suspend payment and delivery obligations, temporarily suspend termination rights as well as suspend the enforcement of security interests or close out or terminate derivative contracts. The maximum suspension period takes until expiration of the business day which follows the day of publication of the notice of suspension.

17.9.5 Minimum Requirements for Own Funds and Eligible Liabilities

To prevent banks from structuring their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools, the SRM Regulation and the BaSAG, implementing the BRRD, introduced a requirement for banks to meet the MREL. The MREL is to be determined by the competent resolution authorities for each supervised bank individually; it applies to all banks across the EU. Currently, MREL ratios are expressed as a percentage of the total liabilities and own funds of the relevant institution; as part of the European Commission's proposal of November 23, 2016 to amend the BRRD and the SRM Regulation, it is intended to change this approach to express MREL as percentages of the total risk exposure amount and the leverage ratio exposure measure. The SRB as the competent resolution authority for BAWAG Group under the SRM Regulation may also require that such percentage is wholly or partially composed of own funds or of a specific type of liabilities.

17.9.6 Single Resolution Fund

Pursuant to the SRM Regulation, the SRF has been set up in order to centralize the national resolution financing arrangements of the eurozone which have been introduced by the BRRD. On May 21, 2014, all EU member states except the U.K. and Sweden signed an intergovernmental agreement on the transfer and mutualization of their national contributions to the SRF. The SRF has a total target level, to be achieved by January 1, 2024, of 1% of the amount of covered deposits of all credit institutions authorized in the participating EU member states (which are basically the member states participating in the eurozone and the SSM) which amounts to an estimated € 55 billion. The SRF is owned and administrated by the SRB. It can also borrow from the markets if decided by the SRB.

Until the SRF has completely built up its funds, it will comprise national compartments corresponding to each participating EU member state. The annual contributions paid by the Austrian institutions under the BRRD and the BaSAG into the Austrian national resolution fund in 2015 amounting to € 198 million were transferred to the Austrian compartment in the SRF in January 2016. The resources accumulated in those compartments would be progressively mutualized over an initial period of eight years, starting with a mutualization of 40% of these resources in the first year (2016) to reach 100% mutualization in 2023. Mutualization means that the national contributions raised by Austrian institutions are used increasingly to fund the resolution of banks in other participating member states and that funds contributed by institutions domiciled in other participating member states are used increasingly to fund the resolution of Austrian banks. Contributions to the SRB are due from each credit institution of BAWAG Group; they consist of a fixed amount (basic annual contribution) which takes into consideration the target level of the SRF and is determined on the basis of the relevant institution's liabilities, excluding own funds and covered deposits pro rata to the aggregate of all eurozone banks. The basic annual contribution is then subject to an additional risk-adjustment at a rate between 0.8 and 1.5%.

The SRF may be used to assist the organized resolution of a credit institution or other entity by, *inter alia*, guaranteeing the assets or the liabilities of the entity under resolution, making loans to the entity under resolution, purchasing assets of the entity under resolution, making contributions to the entity under resolution, a bridge institution or an asset management vehicle, and paying compensation to shareholders or creditors if they have incurred greater losses than they would have incurred in a winding up under normal insolvency proceedings. However, the SRF may only be used for resolving failing banks after certain other options, such as the bail-in tool, have been exhausted to a certain extent.

17.10 Deposit Protection and Investor Compensation in Austria

In 2015, Austria implemented the DGSD into national law by way of the ESAEG and certain amendments to other Austrian acts which, mainly, entered into force on August 15, 2015, subject to transitory provisions for the period until December 31, 2018. Pursuant to the ESAEG, the existing framework of sectoral deposit guarantee schemes in Austria will be maintained until December 31, 2018. As of January 1, 2019, a single deposit guarantee and investor compensation scheme run by the Austrian Chamber of Commerce (*Wirtschaftskammer Österreich*) shall then be responsible for the compensation of all depositors and investors in Austrian credit institutions. Alternatively, so-called institutional protection schemes ("**IPS**") can be approved as sector-specific deposit guarantee and investor compensation schemes where they satisfy the conditions of the CRR (the single scheme and any IPS, a "**Protection Scheme**"). Each Austrian credit institution has to participate in one Protection Scheme. The FMA is vested with supervisory competencies in relation to the Protection Schemes.

Each Protection Scheme has to establish a deposit guarantee fund which has to collect risk-adjusted contributions of its member credit institutions up to an aggregate amount of 0.8% of their covered deposits by July 3, 2024. A maximum of 30% of the annual contribution of a credit institution and of the aggregate available amount may be made in the form of payment obligations (i.e., guarantees). The calculation methodology for the contributions will be set forth by the Protection Schemes and will then be approved by the FMA. The methodology has to consider indicators for the probability of failure of the member credit institutions and the risk of loss for the Protection Scheme in case of a protection event as defined in the ESAEG. The methodology may also consider quality and quantity of balance sheet items and risk indicators. Extraordinary contributions of up to 0.5% per calendar year of covered deposits may be imposed on the members by a Protection Scheme if the existing funds in the deposit guarantee fund do not suffice to compensate depositors to cover a protection event or to satisfy credit obligations. A further increase of contributions is subject to FMA's approval. The mandatory *ex-ante* funding of the DGS pursuant to the DGSD and its implementation through the ESAEG may trigger an additional financial burden for Austrian banks, including the banking subsidiaries of the Company, depending on the exact contribution level and how payment of the contributions is allocated over the initial period and possibly beyond.

17.11 Regulation of Market Infrastructures and Investment Services

17.11.1 European Market Infrastructure Regulation

On August 16, 2012, the EMIR entered into force. Under EMIR, certain types of standardized derivatives contracts that have so far usually been concluded directly, i.e., OTC, between financial counterparties, such as the banking subsidiaries of the Company, or financial counterparties and other entities, must be cleared through a central counterparty (CCP) when certain thresholds are exceeded. In addition, EMIR introduces certain mandatory reporting requirements and risk mitigation techniques, which depend on the status of the counterparty and, where applicable, include rules regarding margining and collateral arrangements, which will ultimately result in higher costs for derivative transactions.

17.11.2 Market Abuse Regulation

On July 3, 2016, a new legal regime on market abuse entered into force consisting of the MAR and Directive 2014/57/EU of the European Parliament and of the Council of April 16, 2014 on criminal sanctions for market abuse (market abuse directive) (the Market Abuse Directive or "**MAD**") which had to implemented into the national laws of the EU member states, in the case of Austria, the MAD has been implemented in the Stock Exchange Act The MAR establishes a common EU framework for, *inter alia*, insider dealing, the public disclosure of inside information, market manipulation, and managers' transactions. The Stock Exchange Act supplements the MAR and, in particular, provides for sanctions in case of violations of the MAR.

17.11.3 New Rules on Markets in Financial Instruments

Further legislative measures in the context of dealing with financial instruments and provision of other investment services include the overhauled MIFID II and the MIFIR and corresponding delegated and implementing legislation. These new rules provide for, among other things, greater regulation and oversight of all relevant markets where financial instruments are traded, purchased or sold by covering additional markets and instruments, extending pre- and post-trade transparency rules from equities to all financial instruments, putting greater restrictions on operating trading platforms, and granting more severe sanctioning powers to authorities. MiFID II and MiFIR which will be applicable as from January 3, 2018, will also introduce a trading obligation for those OTC derivatives which are subject to mandatory clearing under EMIR and which are sufficiently standardized as well as new investor protection rules which will significantly impact the way BAWAG Group distributes products to its clients. MiFID II will need to be implemented into national law, whereas MiFIR is a directly applicable EU regulation. In Austria, MiFID II will be implemented by the Securities Supervision Act 2018 (*Wertpapieraufsichtsgesetz 2018*).

18 GENERAL INFORMATION ON THE COMPANY

18.1 Legal and Commercial Name, Financial Year, Registered Office

The Company is a stock corporation (*Aktiengesellschaft*) established under Austrian law for an indefinite period of time. The Company's legal name is "BAWAG Group AG". Its registered seat is Vienna, Austria, and its business address is Wiesingerstraße 4, 1010 Vienna, Austria. The Company was incorporated on November 16, 2005 as a limited liability company (*Gesellschaft mit beschränkter Haftung*) and transformed into a stock corporation with effect as of August 19, 2017.

The Company is the holding company of BAWAG Group. BAWAG Group's business is primarily conducted by its operating subsidiaries, in particular BAWAG P.S.K., easybank AG, and start:bausparkasse AG.

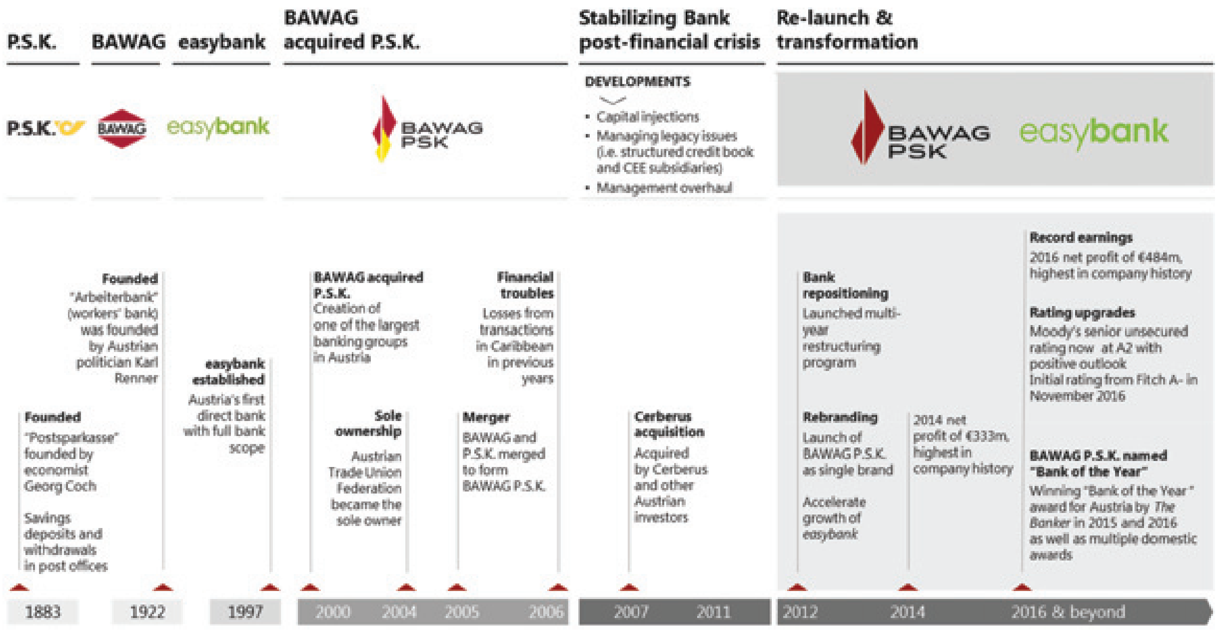
The Company may be reached at its business address as well as by phone (+43 (0) 599 05) or by e-mail under ge.gremienbetreuung@bawagpsk.com. The Company is registered in the Austrian Companies Register (*Firmenbuch*; the "**Companies Register**") under registration number FN 269842 b.

The Company's financial year corresponds to the calendar year.

The Company's as well as BAWAG Group's commercial name is "BAWAG" or "BAWAG P.S.K.".

18.2 History of BAWAG Group

The principal operating subsidiary of BAWAG Group is BAWAG P.S.K. BAWAG P.S.K. and its affiliates and subsidiaries are one of the, in its own assessment, leading full-service banking groups in Austria.



Source: Company information.

18.2.1 History of Bank für Arbeit und Wirtschaft Aktiengesellschaft (BAWAG)

Bank für Arbeit und Wirtschaft Aktiengesellschaft (*BAWAG*) was founded in 1922 by Dr. Karl Renner, State Chancellor of the First Republic and Federal President of the Second Republic of Austria, as the trade unions' bank. Liquidated in 1934 for political reasons, BAWAG was refounded in 1947 as Arbeiterbank and in 1963 renamed to Bank für Arbeit und Wirtschaft Aktiengesellschaft.

18.2.2 Acquisition of P.S.K.

P.S.K. was founded on January 12, 1883 as "k.k. Postsparkassen-Amt". It was formerly the "Staatssparkasse" (state savings bank) in the Austrian territory of the Austro-Hungarian Empire and is one of the world's oldest post office savings institutions. In 1997 the public law institution, Österreichische Postsparkasse, was transformed into a stock corporation and the decision was made to privatize it. On August 16, 2000, the state holding company of P.S.K. agreed to sell the majority of the shares of P.S.K. to Bank für Arbeit und Wirtschaft Aktiengesellschaft (BAWAG). The acquisition became effective on December 1, 2000.

Pursuant to part 1, Section 1 para. 2 PSK-G, which remains in full force and effect, Austria assumed the liability for all debts of P.S.K. as guarantor (Bürge; Section 1346, 1355 Austrian Civil Code). This liability was terminated as of December 31, 2000, but continues to exist for pre-existing liabilities.

18.2.3 Merger of Bank für Arbeit und Wirtschaft Aktiengesellschaft (BAWAG) and Österreichische Postsparkasse Aktiengesellschaft (P.S.K.)

BAWAG P.S.K. came into existence on October 1, 2005 following the merger of Bank für Arbeit und Wirtschaft Aktiengesellschaft (*BAWAG*), P.S.K. and Kapital & Wert Bank Aktiengesellschaft ("**K&W**").

By way of a spin-off Bank für Arbeit und Wirtschaft Aktiengesellschaft (*BAWAG*) (registered in the Companies Register under the number FN 107053 g under its current company name "AVB Holding GmbH") transferred its entire banking business to the group company K&W (registered in the Companies Register under the number FN 205340 x). P.S.K. (registered in the Companies Register under the number FN 158442 d), until then an affiliate of Bank für Arbeit und Wirtschaft Aktiengesellschaft (*BAWAG*), was merged into the same group company (registered in the Companies Register under the number FN 205340 x). By this measure the banking business of Bank für Arbeit und Wirtschaft Aktiengesellschaft (*BAWAG*) and Österreichische Postsparkasse Aktiengesellschaft ("**P.S.K.**") were consolidated. K&W was then renamed as "BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft" (i.e., BAWAG P.S.K.). BAWAG P.S.K. became the operational arm of the banking group. The Bank für Arbeit und Wirtschaft Aktiengesellschaft (*BAWAG*) was renamed Anteilsverwaltung BAWAG P.S.K. Aktiengesellschaft ("**AVB**") and became the sole shareholder of BAWAG P.S.K.

18.2.4 Change of shareholding in BAWAG P.S.K.

On December 14, 2006, the competent bodies of the Austrian Trade Union Federation (*ÖGB*), resolved that AVB shall sell its entire shareholding in BAWAG P.S.K. to a group organized by certain affiliates of Cerberus which also includes Österreichische Post Aktiengesellschaft, the Austrian arm of insurance company Generali (Generali Holding Aktiengesellschaft), a subsidiary of the mortgage lender Wüstenrot (Wüstenrot Verwaltungs- und Dienstleistungen GmbH) and a group of Austrian industrialists. The transaction was closed on May 15, 2007.

18.3 History of the Company

On October 24, 2005, the Company was founded as a limited liability company (*Gesellschaft mit beschränkter Haftung*) under Austrian law as a shelf company by an Austrian law firm. The Company was first registered in the Companies Register on November 16, 2005. The Company's name was Pa-Zweiundfünfzigste WTP Beteiligungsverwaltungs GmbH and its registered share capital amounted to € 35,000.

In December 2006, the Company was acquired by Raquert Holding B.V., a Dutch limited liability company (*besloten vennootschap*), which became the Company's new sole shareholder and held 100% of the share capital until January 2007. In January 2007, Raquert Holding B.V. transferred its 100% participation in the Company to PSH, which became the new sole shareholder of the Company.

On May 8, 2007, PSH as the Company's sole shareholder resolved to increase the Company's share capital by € 99,965,000 to € 100,000,000. The entire capital increase was subscribed by PSH. The capital increase became effective on May 17, 2007. Since then, the share capital of the Company has not been changed.

On September 14, 2007, PSH as the Company's sole shareholder resolved to change the Company's name to BAWAG Holding GmbH. The name change became effective on October 5, 2007.

In August 2017, the Company was transformed from a limited liability company into a stock corporation. In the course of this transformation, the Company's name was changed to BAWAG Group AG. Both the transformation and the name change became effective on August 19, 2017.

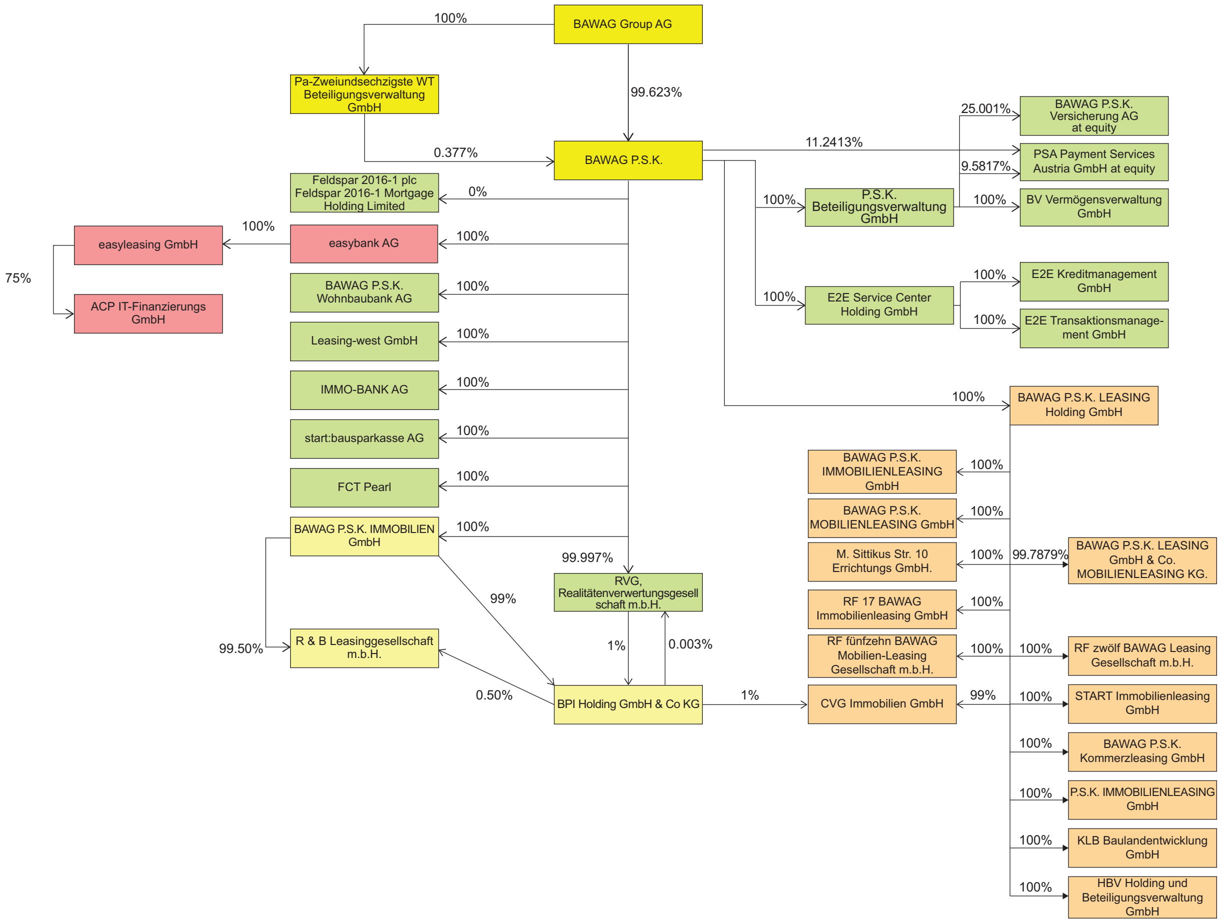
18.4 Relationship between the Management Board and the Supervisory Board of the Company

As an Austrian stock corporation, the Company has a two-tier corporate structure, consisting of the Management Board and the Supervisory Board. The Management Board is responsible for the daily management, while the Supervisory Board has a supervisory function without being involved in the daily management of the Company.

For further information on the Management Board and Supervisory Board, see "*21.2 Management Board*" and "*21.3 Supervisory Board*".

18.5 Structure of BAWAG Group

The following chart provides an overview of all fully consolidated direct and indirect subsidiaries of the Company (unless marked as consolidated "at equity") as of the date of this Prospectus:



Source: Company information.

The following table lists all of the Company's fully consolidated subsidiaries and associates accounted for using the equity method as of the date of this Prospectus:

List of consolidated subsidiaries	
Banks	
BAWAG P.S.K. AG, Vienna	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	100.00%
easybank AG, Vienna	100.00%
IMMO-BANK Aktiengesellschaft, Vienna	100.00%
start:bausparkasse AG, Vienna	100.00%
Real estate	
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	100.00%
BPI Holding GmbH & Co KG., Vienna	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	100.00%
Leasing	
ACP IT-Finanzierungs GmbH, Vienna	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna (formerly: BAWAG P.S.K. LEASING GmbH)	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	100.00%
CVG Immobilien GmbH, Vienna	100.00%
easyleasing GmbH, Vienna (formerly: VB Leasing Finanzierungsgesellschaft m.b.H.)	100.00%

List of consolidated subsidiaries	
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	100.00%
KLB Baulandentwicklung GmbH, Vienna	100.00%
Leasing-west GmbH, Kiefersfelden	100.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	100.00%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%
RF 17 BAWAG Immobilienleasing GmbH, Vienna	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%
START Immobilienleasing GmbH, Vienna	100.00%
Other non credit institutions	
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	25.00%[1)]
BV Vermögensverwaltung GmbH, Vienna	100.00%
E2E Kreditmanagement GmbH, Vienna	100.00%
E2E Service Center Holding GmbH, Vienna	100.00%
E2E Transaktionsmanagement GmbH, Vienna	100.00%
FCT Pearl, Pantin	100.00%
Feldspar 2016-1 Mortgage Holding Limited, London[2)]	0.00%
Feldspar 2016-1 PLC, London[2)]	0.00%
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH, Vienna	100.00%
PSA Payment Services Austria GmbH, Vienna	20.82%[1)]
P.S.K. Beteiligungsverwaltung GmbH, Vienna	100.00%

1) These subsidiaries are consolidated using the equity method.

2) These entities are vehicles which BAWAG Group uses to conduct certain operations aimed at ensuring its funding and refinancing. BAWAG Group does not hold any of the shares in these entities. However, due to contractual arrangements it exercises complete control over these entities' operations. Therefore, in accordance with IFRS 10, BAWAG Group must consolidate these entities.

Source: Company information.

18.6 Information on the Material Subsidiaries of the Company

The following table sets forth the material subsidiaries of the Company. All shares in affiliates have been fully paid in. Unless otherwise indicated, the figures stated for share capital (issued capital and reserves), book value of the shares, receivables and liabilities, as well as net income (loss), for the period have been taken from the respective financial statements and accounting systems of the relevant companies as of December 31, 2016, were prepared in accordance with the relevant domestic accounting provisions and are audited.

Company name, registered seat	Object of the company	Equity interest in %	Book value of the shares	Issued capital	Reserves	Receivables from the Company	Liabilities to the Company	Net income (loss) for the Financial Year 2016	Dividends distributed in the Financial Year 2016
		(in € thousand except for percentages, unless otherwise indicated)							
BAWAG P.S.K. AG, Vienna	to carry out banking and trading transactions of any kind in Austria and abroad	100.0	2,999,275	250,000	1,677,605	9,739	0	321,214	306,000
easybank AG, Vienna	to carry out banking and trading transactions of any kind in Austria and abroad	100.0	58,171	25,000	49,826	0	0	50,803	29,000
start:bausparkasse AG, Vienna	to conduct the business of a building savings association (*Bausparkasse*) regulated by BSpG	100.0	126,190	20,000	80,260	0	0	(11,228)	0

Source: BAWAG Company information.

18.7 Auditors

KPMG and/or Deloitte, both certified public auditors and members of the Austrian Chamber of Chartered Accountants (*Kammer der Wirtschaftstreuhänder*) Austria, audited the German-language originals of the Audited Consolidated Financial Statements as of and for the financial years ended December 31, 2016, 2015 and 2014 prepared in accordance with IFRS as adopted by the EU. In each case, KPMG and/or Deloitte issued an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk*). Apart from the German-language originals of the Audited Consolidated Financial Statements, no financial information referred to in this Prospectus has been audited. However, the Unaudited Interim Condensed Financial Statements of the Company as of and for the six-month period ended June 30, 2017 have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410.

18.8 Notices, Depository, Paying Agent

Pursuant to the Stock Corporation Act, notices must be published in the Official Gazette and, to the extent applicable, on the website of the Company.

OeKB CSD, Strauchgasse 1-3, 1010 Vienna, Austria, is the depositary bank (*Verwahrstelle*). Raiffeisen Centrobank AG, Tegetthoffstraße 1, 1010, Vienna, will be the paying agent (*Zahlstelle*).

18.9 Specialist

Raiffeisen Centrobank AG, Tegetthoffstraße 1, 1010, Vienna will act as specialist for the Existing Shares in accordance with the rules of the Vienna Stock Exchange and the Prime Market segment.

18.10 Ratings

The Company's operating subsidiary BAWAG P.S.K. is rated by Moody's and Fitch. Each of the mandated rating agencies is established in the EU and has been registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of September 16, 2009, as amended, on credit rating agencies.

At the date of this Prospectus, BAWAG P.S.K.'s credit ratings by Moody's are as follows:

Category	**Rating**
Outlook	Positive[1)]
Baseline Credit Assessment	Baa1[2)]
Issuer Rating	A2[3)]
Senior Unsecured	A2[3)]
Senior Subordinate Rating	Baa2[2)]
Short-term Issuer / Bank Deposits Rating	P-1[4)]

1) According to the definitions published by Moody Investors Services Inc. on its website "*a negative, positive or developing outlook indicates a higher likelihood of a rating change over the medium term. A rating committee that assigns an outlook of stable, negative, positive, or developing to an issuer's rating is also indicating its belief that the issuer's credit profile is consistent with the relevant rating level at that point in time.*" See https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.
2) According to the definitions published by Moody Investors Services Inc. on its website "*obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*" See https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.
3) According to the definitions published by Moody Investors Services Inc. on its website "*obligations rated A are judged to be upper-medium grade and subject to low credit risk. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*" See https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.
4) According to the definitions published by Moody Investors Services Inc. on its website "*Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.*" See https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

Source: Company information.

At the date of this Prospectus, BAWAG P.S.K.'s credit ratings by Fitch are as follows:

Category	**Rating**
Outlook	Stable
Long-term Issuer Default Rating	A-[1)]
Short-term Issuer Default Rating	F1[2)]
Viability	a-[3)]
Senior Subordinate Rating	BBB+

1) A long-term issuer default credit rating of "A" from Fitch indicates expectations of low default risks and strong capacity for payment of financial commitments. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. The modifiers "+" or "-" may be applied to a rating to denote relative status within major rating categories. See https://www.fitchratings.com/site/definitions.
2) A short-term issuer default credit rating of "F1" from Fitch indicates the strongest intrinsic capacity for timely payment of financial commitments. See https://www.fitchratings.com/site/definitions.
3) A viability rating of "a" indicates high fundamental credit quality. Such rating denotes strong prospects for ongoing viability. Fundamental characteristics are strong and stable, such that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. The modifiers "+" or "-" may be applied to a rating to denote relative status within categories. See https://www.fitchratings.com/site/definitions.

Source: Company information.

Each rating reflects the view of the rating agency at the time it gave BAWAG P.S.K. the rating. The rating agencies can change their ratings at any time if the believe that circumstances so warrant. Potential investors in the Existing Shares should not view these credit ratings as recommendations to buy, hold or sell securities of BAWAG Group.

The Company itself is not rated by any rating agency.

19 SHAREHOLDER STRUCTURE

All of the Existing Shares are currently being held by the Dutch financial holding company PSH (Promontoria Sacher Holding B.V., a limited liability company (*besloten vennootschap*) incorporated under Dutch law (formerly Promontoria Sacher Holding N.V., a stock corporation (*naamloze vennootschap*) incorporated under Dutch law)). Currently, PSH, and hence the Company, are ultimately controlled by several funds and accounts under management of Cerberus and GoldenTree. Together, such funds and accounts under management of Cerberus and GoldenTree currently hold directly or indirectly approximately 94% of the Existing Shares and voting rights in the Company and, as a result, have the power to govern the financial and operating policies of the Company.

In preparation of the Offering, the shareholders of PSH adopted a plan of dissolution on September 21, 2017 effective only immediately prior to (but conditional upon) Pricing. Following adoption of the dissolution plan and in advance of the liquidation in the course of the dissolution, 97,352,387 Existing Shares will be distributed by PSH to its shareholders or entities designated for this purpose by the shareholders at or around Pricing. As a result of this distribution and immediately prior to the completion of the Offering, approximately 53.0% of the Existing Shares will be held directly by the Cerberus Shareholders, approximately 38.8% will be held directly by the GoldenTree Shareholders, approximately 2.6% will be held by PSH, approximately 4.0% of the Existing Shares will be held by the remaining, minority Selling Shareholders (i.e., 2007 Co-Investment Portfolio L.P., Mr. Hannes Androsch, Aozora Bank, Ltd, Citigroup Capital Partners II Employee Master Fund L.P., D.E. Shaw Galvanic Portfolios, LLC, StepStone Capital Partners II Cayman Holdings L.P., and StepStone Capital Partners II Onshore, L.P.), and approximately 1.5% of the Existing Shares will be held by a variety of Austrian and non-Austrian minority shareholders.

Prior to the completion of the Offering, the ultimate controlling persons over the Company are several funds and accounts under management of Cerberus and GoldenTree, respectively.

Upon completion of the Offering, the Cerberus Shareholders and the GoldenTree Shareholders will hold 32.1% and 23.5%, respectively, of the Existing Shares (assuming the full placement of the Firm Shares and a full exercise of the Greenshoe Option).

The following table shows the Company's shareholder structure immediately prior to the Offering, upon distribution of the Existing Shares by PSH at or around Pricing as well as upon completion of the Offering:

	Shareholding							
Shareholder	**Prior to the Offering**		**Upon distribution of the Existing Shares by PSH at or around Pricing**		**Upon completion of the Offering (without exercise of the Greenshoe Option)[1)2)]**		**Upon completion of the Offering (assuming full exercise of the Greenshoe Option)[1)2)]**	
	Existing Shares	**In %**	**Existing Shares**	**In %**	**Existing Shares**	**In %**	**Existing Shares**	**In %**
PSH	**100,000,000**	**100**	**2,647,613**	**2.6**	–	–	–	–
Cerberus Shareholders[3)]	–	–	**53,008,493**	**53.0**	**35,098,312**	**35.1**	**32,128,565**	**32.1**
Promontoria Holding 212 B.V.	–	–	19,500,712	19.5	12,911,937	12.9	11,819,435	11.8
Promontoria Holding 213 B.V.	–	–	9,745,479	9.7	6,452,740	6.5	5,906,763	5.9
Promontoria Holding 214 B.V.	–	–	6,994,668	7.0	4,631,355	4.6	4,239,489	4.2
Promontoria Holding 215 B.V.	–	–	9,634,291	9.6	6,379,120	6.4	5,839,373	5.8
Promontoria Holding 216 B.V.	–	–	7,133,343	7.1	4,723,160	4.7	4,323,505	4.3
GoldenTree Shareholders[3)]	–	–	**38,796,788**	**38.8**	**25,688,389**	**25.7**	**23,514,864**	**23.5**
GoldenTree HoldCo Lux 1 S.à r.l.	–	–	9,560,341	9.6	6,330,155	6.3	5,794,550	5.8
GoldenTree HoldCo Lux 2 S.à r.l.	–	–	8,425,920	8.4	5,579,025	5.6	5,106,974	5.1
GoldenTree HoldCo Lux 3 S.à r.l.	–	–	7,214,517	7.2	4,776,923	4.8	4,372,740	4.4
GoldenTree Asset Management Dutch BV.	–	–	8,795,683	8.8	5,823,862	5.8	5,331,107	5.3
GN3 SIP LP	–	–	3,941,082	3.9	2,609,495	2.6	2,388,702	2.4
Stichting PGGM Depositary	–	–	859,245	0.9	568,929	0.6	520,791	0.5
Minority Selling Shareholders	**–**	**–**	**4,013,599**	**4.0**	**2,679,792**	**2.7**	**2,573,064**	**2.6**
2007 Co-Investment Portfolio L.P.	–	–	155,513	0.2	103,833	0.1	96,081	0.1
Mr. Hannes Androsch	–	–	114,582	0.1	76,504	0.1	76,504	0.1

Shareholder	Shareholding							
	Prior to the Offering		Upon distribution of the Existing Shares by PSH at or around Pricing		Upon completion of the Offering (without exercise of the Greenshoe Option)[1)2)]		Upon completion of the Offering (assuming full exercise of the Greenshoe Option)[1)2)]	
	Existing Shares	In %	Existing Shares	In %	Existing Shares	In %	Existing Shares	In %
Aozora Bank, Ltd . . .	–	–	1,633,227	1.6	1,090,469	1.1	1,009,056	1.0
Citigroup Capital Partners II Employee Master Fund L.P.	–	–	174,681	0.2	116,631	0.1	107,924	0.1
D.E. Shaw Galvanic Portfolios, LLC . . .	–	–	1,757,911	1.8	1,173,718	1.2	1,173,718	1.2
StepStone Capital Partners II Cayman Holdings L.P.	–	–	98,827	0.1	65,985	0.1	61,059	0.1
StepStone Capital Partners II Onshore, L.P.	–	–	78,858	0.1	52,652	0.1	48,722	0.0
Other minority shareholders	–	–	**1,533,507**	**1.5**[4)]	**1,533,507**	**1.5**[4)]	**1,533,507**	**1.5**[4)]
Other shareholders	–	–	**–**	**–**	**35,000,000**	**35.0**	**40,250,000**	**40.3**
Total	**100,000,000**	**100**	**100,000,000**	**100**	**100,000,000**	**100**	**100,000,000**	**100**
Thereof Free Float[5)]	**–**	**–**	**–**	**–**	**39,213,299**	**39.2**	**44,356,571**	**44.4**

1) Option granted by the Selling Shareholders (other than PSH and certain minority shareholders) to the Underwriters to acquire up to 5,250,000 shares against payment of the Final Offer Price less agreed commissions. For further information, see "*4.7 Stabilization Measures, Over-Allotment and Greenshoe Option*".

2) While keeping the maximum number of Offer Shares sold in the Offering constant and without adding any additional selling shareholder, the maximum number of Offer Shares to be sold by each individual Selling Shareholder and, accordingly, the respective shareholdings of the Selling Shareholders in the Company upon completion of the Offering may potentially change.

3) The Cerberus Shareholders or GoldenTree Shareholders may enter into a margin loan facility, as a result of which the Existing Shares held by the Cerberus Shareholders or GoldenTree Shareholders would be pledged to the Margin Loan Lender as security. Such Margin Loan Lender may include one or more of the Underwriters (or their affiliates).

4) None of the minority shareholders holds 4% or more of the voting rights in the Company.

5) Free float comprises the shareholdings of (i) the minority Selling Shareholders, (ii) the other minority shareholders, and (iii) the other shareholders.

Source: Company information.

20 INFORMATION ON THE SHARE CAPITAL OF THE COMPANY, APPLICABLE REGULATIONS AND DESCRIPTION OF THE ARTICLES OF ASSOCIATION

The following summary provides information on the material terms of the Company's share capital as set out in the Articles of Association as amended by resolution of the shareholders' meeting adopted on September 15, 2017 as well as certain relevant provisions of the Stock Corporation Act. This description is only a summary and does not include all information contained in the Articles of Association. The Company encourages a full review of the Articles of Association and further information, which is available on the Company's website (www.bawaggroup.com under the section "investor relations"). Information displayed on the Company's website is not incorporated by reference into this Prospectus.

20.1 Share Capital

20.1.1 Registered Share Capital

As of the date of this Prospectus, the issued and fully paid-in share capital of the Company amounts to € 100,000,000 and is divided into 100,000,000 ordinary no-par value bearer shares. The calculated notional value of each Existing Share amounts to € 1.00. All Existing Shares have identical voting rights and each Existing Share confers one vote at the shareholders' meeting.

20.1.2 Form and Certification of the Existing Shares

Form and contents of the share certificates are determined by the Management Board and require approval from the Supervisory Board. According to the Articles of Association, shares shall be represented by one or, if applicable, several global certificates and deposited with a securities clearing and deposit bank as defined in Section 1 para. 3 Austrian Custody Act or an equivalent foreign institution. The Existing Shares will be certificated in one or, if applicable, several global certificates and are respectively will be deposited with OeKB CSD.

20.1.3 Development of the Company's share capital since 2014

Since May 17, 2007, the Company's registered share capital amounts to € 100,000,000. It has not been changed since then. In 2017, the Company was transformed from a limited liability company into a stock corporation. The transformation became effective on August 19, 2017. In the course of this transformation, the amount of the Company's registered share capital was not changed. For further details, see "*18.3 History of the Company*".

20.1.4 Authorized Capital 2017

On September 15, 2017 the Shareholders' Meeting resolved to create authorized capital in an amount of up to € 50,000,000. This authorized capital ("**Authorized Capital 2017**") has become effective on September 30, 2017.

Pursuant to the Authorized Capital 2017, the Management Board shall be authorized for a five year period from the date of the resolution, thus until September 15, 2022, to increase the share capital, with the consent of the Supervisory Board, in one or several tranches, by up to € 50,000,000 (corresponding to a total of 50% of the Company's current share capital) by issuing up to 50,000,000 new bearer shares with no par value against cash payments, and in some circumstances, against contributions in kind. Statutory subscription rights have to be granted to the Company's shareholders. The statutory subscription rights may also be granted in such a way that the new shares are subscribed for by one or several credit institutions with the obligation to offer them to the shareholders (indirect subscription right). Shareholders' subscription rights shall be excluded in case the authorization is utilized by issuing shares against cash payments in a total amount of up to 10% of the share capital to exclude fractional amounts and/or to satisfy the exercise of over-allotment options (greenshoe options) granted to the issuing banks. Further, the Management Board, with the consent of the Supervisory Board, shall be authorized to exclude subscription rights insofar as is necessary to grant subscription rights to new shares to the holders of debt instruments (including participation rights) with conversion or option rights or a conversion obligation issued by the Company or yet to be issued by the Company or its subsidiaries to the extent that they would be entitled to such subscription rights after exercising the conversion or option right or upon fulfillment of a corresponding conversion obligation. The Management Board is also authorized to exclude subscription rights in order to grant new shares within the framework of an employee participation program or a stock option program to employees, senior executives, and /or members of the Management Board of the Company and subsidiaries in which the Company, directly or indirectly, holds any shares or over which the Company is in a position to exercise controlling influence. Moreover, the Management Board is authorized to exclude subscription rights in order to carry out scrip dividends. In addition, the Management Board is authorized to exclude subscription rights in order to increase the share capital against contributions in kind, provided that the capital increase is carried out for the purpose of (also indirectly) acquiring companies, parts of companies or participations in companies or other assets related to an acquisition project. In case of capital increases against cash payments, the Management Board shall also be authorized to exclude the subscription rights if the exercise of the authorization is objectively justified on the exercise date in accordance with the respective applicable legal requirements, and provided that the shares so issued do not exceed in total 10% of the share capital of the Company at the time the authorization becomes effective or—if the value is lower—at the time the authorization is utilized. This maximum limit of 10% of the share capital is reduced by the proportionate amount of the share capital attributable to those treasury shares of the Company that are sold and transferred by the Company during the term of the Authorized Capital 2017, while excluding the shareholders' subscription rights pursuant to Sections 65 para. 1b, 170 para. 2, 153 para. 4 Stock Corporation Act. In addition, the maximum limit is reduced by the proportionate amount of the share capital attributable to those shares which have to be granted to service debt instruments (including participation rights) with conversion or option rights or a conversion obligation, to the extent that such debt instruments (including participation rights) are issued during the term of the Authorized Capital 2017, while excluding the subscription rights subject to appropriate application of Section 153 para. 4 Stock Corporation Act. Management Board resolutions to utilize authorized capital and to exclude subscription rights require the Supervisory Board's approval. Furthermore, the Management Board shall be authorized, with the consent of the Supervisory board, to determine further details concerning the execution of capital increases out of the Authorized Capital 2017.

20.1.5 Conversion and Option Rights

As of the date of this Prospectus, save for the rights under the forward share purchase agreements entered into by the Management Board members and certain senior staff members of BAWAG P.S.K. (see "*21.5.2.1 Forward Share Purchase Agreements*"), there are no convertible securities, exchangeable securities or securities with warrants with respect to the share capital of the Company or any other member of BAWAG Group. In relation to the unilaterally cancelled share appreciation rights awarded in 2013 and 2014 and the potential delivery of Existing Shares to members of the Management Board in the course of a settlement in accordance with the resolution roadmap agreement, see "*21.2.4.5 Unilateral Cancellation of Share Appreciation Rights from 2013 and 2014*" and "*21.5.2.2 Resolution Roadmap Agreement*".

20.1.6 Authorization to Acquire Own Shares

On September 15, 2017, the Shareholders' Meeting resolved to authorize the Management Board for a period of 30 months from the date of the resolution in accordance with Section 65 para. 1 no. 8 and para. 1a and 1b Stock Corporation Act and subject to the consent of the Supervisory Board to acquire treasury shares of the Company.

Pursuant to the authorization, the consideration to be paid per share when repurchasing shares must not be lower than € 1.00 and must not be more than 20 percent above the volume weighted average closing price of the last 20 trading days preceding the respective purchase. The Management Board is authorized to establish the repurchase conditions, whereby the Management Board shall publish (each) corresponding Management Board resolution and the respective buy-back program including its duration in accordance with the statutory provisions.

The Management Board may exercise the authorization within the statutory limits on the maximum number of treasury shares either once or on several occasions, provided that the percentage amount of the share capital of the Company relating to shares acquired by the Company on account of the authorization or otherwise does not exceed 10 percent of the share capital at any time. Repeated exercise of the authorization is permissible. For the purpose of calculating the 10 percent threshold, the shares held by the Company as well as shares of the Company acquired by subsidiaries or third parties for the account of the Company or a subsidiary pursuant to Section 66 Stock Corporation Act as well as shares taken as pledge in accordance with Section 65b Stock Corporation Act must be taken into account.

The authorization may be exercised in whole or in part, or also in several partial amounts and for one or several purposes by the Company, by a subsidiary (Section 189a no. 7 Commercial Code), or by third parties acting on behalf of the Company.

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

Pursuant to the authorization, the Management Board may resell the acquired shares without an additional resolution by the General Meeting with the consent of the Supervisory Board via the stock exchange or a public offer and set the terms of sale. The authorization may be exercised in whole or in part, or also in several partial amounts and for one or several purposes by the Company, by a subsidiary (Section 189a no. 7 Commercial Code), or by third parties acting on behalf of the Company. In the case of a disposal by means of a public offer, the statutory pre-emptive right (subscription right) of the shareholders in relation to the treasury shares sold in the course of the public offer is excluded (direct exclusion of the statutory pre-emptive right (subscription right)) to exclude fractional amounts, which could arise in the event of an unfavorable subscription ratio, from the shareholders' pre-emptive right (subscription right).

Furthermore, the Management Board is authorized to retire the treasury shares acquired in whole or in part without an additional resolution by the General Meeting with the consent of the Supervisory Board. The retirement causes a capital reduction by the portion of the share capital that is attributable to the shares retired. The Supervisory Board is authorized to adopt the changes to the Articles of Association of the Company to reflect the retirement of the treasury shares.

On September 15, 2017 the Shareholders' Meeting also resolved to authorize the Management Board for a period of five years from the date of the resolution in accordance with Section 65 para. 1b Stock Corporation Act, to adopt a resolution, subject to the consent of the Supervisory Board, on the sale of treasury shares using a different legally permitted method of sale than through the stock exchange or via a public offer and on a possible exclusion of pre-emption rights (subscription rights) of shareholders, and to define the terms and conditions of sale. The authorization includes, in particular, the sale of treasury shares by using a different legally permitted method of sale than through the stock exchange or via a public offer to the extent necessary to service debt instruments (including participation rights) with conversion or option rights or a conversion obligation issued or yet to be issued by the Company or its subsidiaries (Section 189a no. 7 Commercial Code). The Management Board may also use a different legally permitted method of sale than through the stock exchange or via a public offer in order to issue shares to employees, senior executives, and members of the Management Board of the Company or its subsidiaries (Section 189a no. 7 Commercial Code) within the framework of an employee participation program or a stock option program or in order to be able to sell the shares in exchange for contributions in kind, provided this is done for the purpose of (also indirect) acquiring companies, parts of companies or participations in companies or other assets related to an acquisition project or to carry out a so-called "scrip dividend" in the course of which the shareholders of the Company are offered to contribute their dividend claim (in whole or in part) as a contribution in kind against the transfer of treasury shares. Furthermore, the Management Board may also use a different legally permitted method of sale than through the stock exchange or via a public offer in order to be able to sell the shares in any way other than through the stock market or through an offer to all shareholders if the exercise of the authorization is objectively justified on the exercise date in accordance with the respective applicable legal requirements. In this case, the total number of shares to be sold together with new shares issued since granting of this authorization in the context of a capital increase under exclusion of the subscription right pursuant to Section 153 para. 4 Stock Corporation Act may not exceed 10 percent of the share capital at the date of the resolution or, if such value is lower, at the time of the exercise of this authorization. The maximum limit is further reduced by the pro rata amount of the share capital attributable to those shares which are to be issued for the purpose of servicing bonds (including participation rights) with conversion or option rights or a conversion obligation of the Company, provided that such debt instruments (including participation rights) have been issued since granting of this authorization under exclusion of the subscription right in accordance with Section 153 para. 4 Stock Corporation Act. The authorizations can be used once or more, in whole or in part, individually or jointly. The authorizations also include the use of treasury shares held by the Company, as well as shares in the Company acquired by subsidiaries or third parties for the account of the Company or a subsidiary pursuant to Section 66 Stock Corporation Act.

Currently, neither the Company nor any of its subsidiaries holds shares in the Company.

20.1.7 Description of any Restrictions of the Free Transferability of the Existing Shares

Under the Stock Corporation Act and the Company's Articles of Association, there are no restrictions on the free transferability of the Existing Shares, including the Offer Shares. Investors, in particular international investors, however, are requested to inform themselves of any potential regulatory restrictions in relation to the acquisitions of shares in the Company, in particular under merger control laws, Austrian Foreign Trade Act (*Außenwirtschaftsgesetz – AußWG 2011*) and the Austrian Banking Act (*Bankwesengesetz – BWG*).

20.2 Applicable Provisions under Austrian Law

The following summary provides information on certain relevant provisions of the Stock Corporation Act. The summary of relevant provisions under Austrian law set forth hereunder is for general information only. It does not purport to be a comprehensive and complete description of all the topics discussed below.

20.2.1 General Regulations on Earnings Appropriation and Dividend Payments

During the first five months of each financial year, the Management Board must prepare annual financial statements for the previous financial year, including the notes thereto and the management report. After the financial statements have been audited, the Management Board must present them, along with a proposal for the distribution of any net profit, to the Supervisory Board. The Supervisory Board must provide the Management Board with a statement on the annual financial statements within two months of their presentation. The Supervisory Board must also file a report to the shareholders' meeting.

Pursuant to the Commercial Code and the Stock Corporation Act, the Company may only pay dividends out of distributable profits. Distributable profits are based on accumulated profits, as shown in the Company's unconsolidated financial statements in accordance with the Commercial Code, after allocations have been made to reserves, including retained earnings. Distributable profits can also be based on retained earnings from previous financial years. The Management Board decides on the allocation of reserves, in particular retained earnings.

On the basis of the Management Board's proposal and the Supervisory Board's report, the shareholders' meeting resolves whether dividends will be paid for any financial year and the amount and timing of any such dividend payment. The shareholders' meeting, in its resolution, is bound to the annual financial statements as prepared by the Management Board and approved by the Supervisory Board. In case the Supervisory Board does not approve the annual financial statements as prepared by the Management Board or if the Management Board and the Supervisory Board so decide, the shareholders' meeting is competent for approving the annual financial statements. It is, however, not bound to the Management Board's proposal for the distribution of the net profit. Pursuant to the Articles of Association, the shareholders' meeting may also resolve to exclude the distribution of the balance sheet profit in whole or in part and may also decide to allocate the balance sheet profit in whole or in part to the Company's reserves.

Unless otherwise decided by the shareholders' meeting, dividends are due on the 21st day after the shareholders' meeting which resolved on the dividends. Dividends that have not been collected by the shareholder within three years after becoming due are deemed forfeited and accrue to the Company's free reserve.

20.2.2 Liquidation Rights

In case of the liquidation of the Company, any assets remaining after discharge of liabilities and repayment of supplementary capital will be distributed to the shareholders on a pro rata basis. Pursuant to statutory law, a majority of at least 75% of the share capital present or represented at the shareholders' meeting is required to pass a resolution regarding the liquidation of the Company.

20.2.3 General Provisions Concerning Changes in Share Capital

Pursuant to the provisions of the Stock Corporation Act, an increase of the Company's share capital is permitted in particular by way of a resolution of the shareholders' meeting:

- to issue new shares against contributions in cash or in kind adopted by the shareholders' meeting (ordinary capital increase (*ordentliche Kapitalerhöhung*) pursuant to Section 149 et seq. of the Stock Corporation Act);
- authorizing the Management Board, on the basis of the Articles of Association and subject to approval of the Supervisory Board, to issue new shares up to a specified amount not exceeding 50% of the issued share capital at the time of authorization within a specified period, which may not exceed five years (authorized capital (*genehmigtes Kapital*) pursuant to Section 169 et seq. of the Stock Corporation Act);
- authorizing the issuance of new shares up to a specified amount for specific purposes, such as granting stock options to employees, executives and members of the Management Board and the Supervisory Board or of an affiliated company not exceeding 10% of the issued share capital at the time of authorization, to prepare a merger, or in order to grant conversion rights or subscription rights to holders of convertible bonds not exceeding 50% of the issued share capital at the time of authorization (conditional capital (*bedingtes Kapital*) pursuant to Section 159 et seq. of the Stock Corporation Act);
- authorizing the Management Board, subject to the approval of the Supervisory Board, to effect a conditional capital increase in order to grant stock options to employees, executives and members of the Management Board up to a certain amount not exceeding 10% of the issued share capital at the time of authorization (authorized conditional capital (*genehmigtes bedingtes Kapital*) pursuant to Section 159 para. 3 of the Stock Corporation Act); or
- authorizing the conversion of free reserves (*ungebundene Rücklagen*) or profit carried forward (*Gewinnvortrag*) into share capital (capital adjustment (*Kapitalberichtigung*) pursuant to the Austrian Capital Adjustment Act (*Kapitalberichtigungsgesetz*)).

Resolutions of the shareholders' meeting regarding an ordinary increase of the Company's share capital require a simple majority of the share capital represented in the respective shareholders' meeting, except when subscription rights of existing shareholders are excluded, in which case a majority of at least 75% of the share capital represented at the time of the resolution is required. Resolutions of the shareholders' meeting regarding authorized or conditional capital or authorized conditional capital require a majority of at least 75% of the share capital represented in the respective shareholders' meeting.

Except in the case of certain capital reductions effected by repurchase of own shares by the Company, a resolution to decrease the share capital requires a majority of at least 75% of the share capital represented in the respective shareholders' meeting (Section 175 para. 1 Stock Corporation Act).

The Articles of Association of the Company provide for an authorized capital pursuant to Section 169 et seq. of the Stock Corporation Act (see "*20.1.4 Authorized Capital 2017*"). To date, the Management Board has not made use of the Authorized Capital 2017.

20.2.4 General Provisions Concerning Subscription Rights

Pursuant to Section 153 para. 1 of the Stock Corporation Act, when the Company issues new shares, existing shareholders of the Company are entitled to subscribe for and to be allocated such number of new shares (as well as securities convertible into shares, securities with warrants to purchase shares, securities participation bonds or participation rights) to allow them to maintain their existing participation in the Company's share capital. The subscription rights (*Bezugsrechte*) of existing shareholders are therefore proportionate to the number of shares held by them prior to the offering of new shares. Similarly, Section 174 para. 4 of the Stock Corporation Act provides for subscription rights of existing shareholders of the Company in relation to securities convertible into shares, securities with warrants to purchase shares, securities with profit participation or participation certificates to allow them to maintain their existing participation in the Company's share capital.

Shareholders may waive or choose not to exercise their subscription rights. Furthermore, subscription rights may fully or partially be excluded by resolution of the shareholders' meeting (Section 153 para. 3 Stock Corporation Act) if the interest of the Company in such exclusion prevails over the interest of the Company's shareholders. If subscription rights are to be excluded, a majority of at least 75% of the share capital present or represented at the shareholders' meeting must approve the respective resolution. In addition, the proposal to exclude subscription rights must be announced prior to the respective shareholders' meeting. Furthermore, resolutions excluding subscription rights must be based on a written report by the Management Board justifying such exclusion.

A shareholders' resolution in respect of authorized capital may either directly exclude subscription rights or authorize the Management Board to exclude subscription rights with a majority of 75% of the share capital present or represented at the respective shareholders' meeting. If the Management Board is authorized to exclude subscription rights, the Management Board's resolution to exclude subscription rights requires approval by the Supervisory Board, as well as an additional reasoned statement justifying the exclusion (see "*20.1.4 Authorized Capital 2017*"). If shares are issued out of conditional capital, existing shareholders are not entitled to subscription rights.

Existing shareholders are entitled to exercise their rights within a specified subscription period (*Bezugsfrist*), which must last for at least two weeks. When issuing new shares, the Management Board must publish a notice in the Official Gazette specifying the beginning and the duration of the subscription period, as well as the subscription price. Shareholders may transfer their subscription rights during the subscription period. If subscription rights are not exercised during the subscription period, they will be deemed forfeited.

It is not considered an exclusion of subscription rights if new shares are initially subscribed for by a credit institution which undertakes to offer the new shares to existing shareholders in proportion to their subscription rights (intermediate subscription right, *mittelbares Bezugsrecht*). The rights of the shareholders against such credit institution are fully substituted for and are treated as being the subscription rights.

In the Offering the shareholders of the Company are not entitled to subscription rights, as the Offer Shares are not newly issued by the Company but are existing shares sold by the Selling Shareholders (see "*4.1 Subject Matter of the Offering*").

20.2.5 Authorization to Purchase and Sell Treasury Shares

Pursuant to the Stock Corporation Act, a stock corporation may generally only trade (i.e., purchase and sell) its own shares in the following limited circumstances:

- upon prior authorization by the shareholders' meeting, for a period not exceeding 30 months and limited to a total of 10% of the overall share capital, if the shares are listed on a regulated market (such as the Official Market or the Second Regulated Market, respectively) for any legally permissible purpose, or if the shares are intended to be offered to the company's employees, members of its management board or supervisory board or employees of certain affiliated companies, provided that the company keeps sufficient reserves; the resolution must determine a minimum and a maximum consideration;

- if the shares are acquired without payment of consideration or if the stock corporation is acting as agent on a commission basis;
- to prevent substantial, immediately threatening damage to the stock corporation (subject to the limitation of 10% of the overall share capital), provided the stock corporation keeps sufficient reserves;
- by way of a universal legal succession (*Gesamtrechtsnachfolge*; e.g., succession by merger);
- for the purpose of indemnifying minority shareholders, if required by law, provided that the stock corporation keeps sufficient reserves;
- as part of a redemption of shares in accordance with the rules for capital decreases approved by the shareholders' meeting; or
- if the stock corporation is a credit institution authorized by the shareholders' meeting to purchase treasury shares for the purpose of trading in securities.

A stock corporation cannot exercise shareholder's rights (e.g., voting rights) with respect to treasury shares. Treasury shares held directly by the stock corporation are not entitled to dividends; if the treasury shares are held by a subsidiary, such shares are entitled to receive dividend payments.

In the shareholders' meeting of September 15, 2017 the Management Board was authorized for a period of 30 months from the date of the resolution, and subject to the listing of the Existing Shares in the Official Market, to acquire shares of the Company up to a total of 10% of the overall share capital of the Company for any legally permissible purpose with consent of the Supervisory Board. The Management Board was also authorized to exclude the shareholders' statutory pro-rata tender rights (reverse subscription right, *umgekenrtes Bezugsrecht*) when acquiring shares of the Company as well as the shareholders' statutory pre-emption right (*Wiederkaufsrecht*) when selling shares of the Company. In both cases, the requirements for the exclusion of the shareholders' subscription right must be met (see "*20.1.6 Authorization to Acquire Own Shares*").

20.3 Summary of the Articles of Association

The summary of the Articles of Association set forth hereunder is for general information only. It does not purport to be a comprehensive and complete description of all items of the Articles of Association.

The current version of the Articles of Association has been in effect since September 30, 2017, the date on which the last of the applicable resolutions of the shareholders' meeting of September 15, 2017 on the amendment of the Articles of Association was registered in the Companies Register. The current version of the Articles of Association is available on the Company's website in the official German version and in a non-binding English language translation. Unless otherwise indicated, information displayed on the Company's website is not incorporated by reference in this Prospectus.

20.3.1 Corporate Purpose

Pursuant to Section 2 para. 1 of the Articles of Association, the Company's corporate purpose is

a) the acquiring, holding, managing and disposing of participations in existing companies and businesses and/or companies and businesses yet to be established within Austria and abroad, including banks, indifferent in which corporate form;

b) the exercise of the management and holding functions in respect of participations pursuant to litera a) as well as companies and businesses of BAWAG Group, including on the basis of corporate law or on the basis of contractual agreements with companies and businesses of BAWAG Group, including the activity as, and exercise of the functions of, a financial holding; and

c) the provision of management services of any kind with respect to participations in companies and business of the BAWAG Group as well as contracts and other business relationships of the BAWAG Group with domestic and foreign contract partners.

In addition, pursuant to Section 2 para. 2 of the Articles of Association, the Company shall be entitled to enter into any transactions and to take all steps which are in connection with or appear to be directly or indirectly suitable to promote its purpose. The Company may establish branches and subsidiaries within Austria and abroad and may undertake all legal transactions that could be useful in achieving or promoting the purposes of the Company.

The Company may limit the actual scope of its activities to one or several parts of its corporate purpose.

Pursuant to Section 2 para. 3. of the Articles of Association, the Company is not entitled to engage directly in business activities that require a license pursuant to the BWG, the Austrian Securities Supervision Act, the Austrian Insurance Supervision Act or any other license that must be obtained prior to the Company's registration in the commercial register; activities reserved for Public Accountants and Tax Advisors are also excluded.

20.3.2 Shareholders' Meeting

Shareholders' meetings shall be called by the Management Board or the Supervisory Board subject to applicable law and the provisions of the Articles of Association. A shareholder or a group of shareholders holding at least 5% of the share capital may request that the Company calls a shareholders' meeting, provided they have held such a participation during the last three months before the request and continue to hold it until the Company has resolved on the request.

The shareholders' meeting must take place at the seat of the Company.

The Company must publish an invitation notice of the respective shareholders' meeting on the Company's website as well as in the Official Gazette. The minimum period between publication of the invitation notice and the date of the respective shareholders' meeting is 28 days for an ordinary shareholders' meeting or 21 days for any other shareholders' meeting.

The right to attend a shareholders' meeting, the right to exercise voting rights and all other shareholder rights in the shareholders' meeting are dependent upon the Company having received evidence that the shares are held on the applicable record date (which is the end of the 10th day prior to the date of the respective shareholders' meeting). Proof of ownership shall be provided by means of deposit confirmation that the shares are held in custody by the custodian bank. Any credit institution that has its registered seat in a member state of the EEA or a country that is a full member of the Organization of Economic Co-operation and Development (OECD) may act as depository. The Company must have received such proof of ownership at the address designated for that purpose in the invitation no later than on the third working day before the General Meeting or such later date, if any, as determined in the invitation. The deposit confirmation shall not be older than seven days upon receipt by the Company. The Company shall not be obliged to verify the factual correctness of the deposit confirmations received.

The chairman of the Supervisory Board presides at shareholders' meetings of the Company. If the chairman is not present, then the deputy chairman presides. If the deputy chairman is not present, the notary public called in for recording the minutes shall chair the meeting until the election of a chairperson.

At least one shareholders' meeting must be held each financial year (ordinary shareholders' meeting). The Company's ordinary shareholders' meeting, which according to Section 11.3 of the Articles of Association, must take place within the first eight months of a financial year and which is called by the Management Board upon the receipt of the Supervisory Board's report on the annual financial statements (for further information, see "*20.2.1 General Regulations on Earnings Appropriation and Dividend Payments*"), has to pass resolutions on the following matters:

- appropriation of the balance sheet profit,
- the discharge of the members of the Management Board and the Supervisory Board,
- the election of the statutory auditor, and
- where applicable, on the approval of the unconsolidated financial statements.

Under certain circumstances, such as when a resolution violates the Articles of Association or the Austrian Stock Corporation Act, shareholders may petition the competent court to challenge or petition for a decree of nullity of resolutions adopted at the shareholders' meeting.

Neither Austrian law nor the Articles of Association restrict the right of non-resident or foreign holders of the Existing Shares to hold or vote the Existing Shares.

Shareholders may appoint proxies to represent them at shareholders' meetings by providing the Company with a power of attorney in text form.

20.3.3 Shareholders' Rights

20.3.3.1 Voting Rights and Majority Requirements

Each Existing Share entitles its holder to participate, ask questions and cast one vote at the shareholders' meeting. Generally, there is no minimum attendance quorum at the shareholders' meeting (exceptions apply).

As a general rule, the shareholders' meeting may adopt its resolutions by simple majority of the votes cast (i.e., 50% plus one vote of the votes present at the Shareholders Meeting). There are, however, some exceptions to this rule, and the articles of association may, subject to certain restrictions, provide for other majority requirements (*see below*).

In relation to resolutions of particular importance, Austrian law requires that a majority of the share capital present at the shareholders' meeting has to vote in favor of a given resolution. The requirement of the capital majority is in addition to that of the majority of the votes cast. Relevant for calculation of the majority of the capital is the capital represented when the resolution is passed. The share capital is represented by those shareholders who have the right to vote and cast a valid vote (i.e., shareholders that vote either in favor or against a proposed resolution; shareholders that abstain from casting a vote are not counted).

Generally, the differentiation between majority in terms of votes cast and capital majority is only relevant in case the articles of association limit the number of voting rights a shareholder can exercise (e.g., by means of a maximum voting right – *Höchststimmrecht*). This is also the result of the principle that, basically, one share grants one vote (there are, however, some exceptions to this principle). As of the date of this Prospectus, different voting rights do not exist.

As a deviation from the legal provisions, the Articles of Association of the Company provide in Sections 10.6.1 and 10.6.2 the following:

- Unless the law provides mandatorily for a different majority, shareholders' meeting shall pass their resolutions by simple majority of the votes cast and, in cases where a majority of the capital is required, by simple majority of the share capital represented at the time the resolution is passed.
- If in the case of elections no simple majority is reached in the first ballot, a second ballot shall be held between the two candidates who received the most votes in the first ballot. In the case of a tie, no effective resolution on the election has been passed.

As a consequence, the shareholders' meeting of the Company adopts its resolutions by simple majority of the votes cast/capital represented, with the exception of the following:

- For the following matters, a majority of 75% of the share capital present at a shareholders' meeting is necessary. The articles of association may only increase the applicable majority in these matters and/or provide for further requirements for any of these matters (which has not been made use of in the Articles of Association):
  - change of the stock corporation's business objective;
  - ordinary and simplified decreases of the share capital (*ordentliche und vereinfachte Kapitalherabsetzungen*);
  - authorized capital (*genehmigtes Kapital*) and conditional capital (*bedingtes capital*), including authorized conditional capital (*genehmigt bedingtes Kapital*);
  - exclusion of the shareholders' statutory subscription rights (*Bezugsrechtsausschluss*);
  - dissolution of the stock corporation and continuation of the dissolved stock corporation;
  - mergers (*Verschmelzungen*), including cross-border mergers, proportionate demergers (*verhältniswahrende Spaltungen*) and transformations (*Umwandlungen*), including transformations pursuant to the Austrian Transformation Act (*Umwandlungsgesetz*) and the Austrian Act on the Societas Europaea (*SE-Gesetz*);
  - asset transfers pursuant to Section 235 of the Stock Corporation Act (*Vermögensübertragung auf eine Gebietskörperschaft*), Section 236 of the Stock Corporation Act (*Vermögensübertragung auf einen Versicherungsverein auf Gegenseitigkeit*) and Section 237 of the Stock Corporation Act (*Vermögensübertragung in anderer Weise*);
  - profit pooling agreements pursuant to Section 238 of the Stock Corporation Act (*Gewinngemeinschaft*);
  - domination agreements (*Konzern-, Konzernierungsverträge*), control agreements (*Beherrschungsverträge*), affiliation agreements (*Unternehmensverträge*) and agreements/measures affecting the corporate governance in a way that requires analogous application of Sections 235 *et seq* of the Stock Corporation Act;
  - determination of, or authorization of the management to determine, the acquisition and sale of own shares by other means than by means of a stock exchange or a public offering;
  - post-formation acquisitions pursuant to Section 45 of the Stock Corporation Act (in relation to post-formation acquisitions effected within one year from the registration of the company in the register of companies the law provides for the additional requirement of an affirmative vote by ¼ of the entire share capital);
  - certain amendments of the articles of association based on the Austrian Takeover Act (*Übernahmegesetz*; "**Takeover Act**").

- For the following matters, a majority of 90% of the entire share capital is necessary. The articles of association may only increase the majority requirement and/or provide for further requirements for any of these matters:
  - squeeze-out pursuant to the Austrian Act on the Squeeze-out of minority shareholders (*Gesellschafter-Ausschlussgesetz*; "**Squeeze-out Act**");
  - disproportionate demergers (*nicht-verhältniswahrende Spaltungen*) (certain types of demergers require approval of 100% of the share capital).

Austrian law affords certain rights to (minority) shareholders, which the articles of association must not limit or otherwise restrict.

There are rights afforded to a shareholder of a stock corporation that the shareholder can exercise in the context of the shareholders' meeting irrespective of a specific participation held. Such rights include, *inter alia*, the right to attend the shareholders' meeting, the voting right, the right to request that a resolution be adopted by the shareholders' meeting if the subject matter of the resolution is covered by the agenda of the shareholders' meeting, the right to challenge resolutions adopted by the shareholders' meeting, the right to appoint a proxy, etc.

Furthermore, there are shareholder rights in the context of shareholders' meetings that a shareholder (or a group of shareholders) can only exercise if he holds a certain participation in the Company (in some cases, the law requires also a minimum holding period).

The most important rights are (the following list is quite complete, however, not exhaustive):

- A shareholder or a group of shareholders with an aggregate holding of at least 20% of the share capital may object to settlements or waivers of liability claims of the stock corporation against members of the management board, the supervisory board or third parties.
- A shareholder or a group of shareholders with an aggregate holding of at least 10% of the share capital may:
  - demand special audits of activities with respect to the establishment of the stock corporation and its management, if these activities took place within the last two years, and make an application for the appointment of a special auditor by the court, if such request is rejected by a shareholders' resolution and special circumstances indicate improprieties or a breach of the stock corporation's articles of association or the law;
  - demand that the court shall revoke the appointment of members of the Supervisory Board for cause;
  - veto the appointment of a special auditor and request the court to appoint a different special auditor;
  - request an adjournment of the shareholders' meeting if the annual financial statements are found to be incorrect by the shareholders requesting such adjournment; and
  - request the assertion of claims for damages on behalf of the stock corporation against members of the management board, the supervisory board or certain third parties, if the claim is not obviously unfounded.
- A shareholder or a group of shareholders with an aggregate holding of at least 5% of the share capital may:
  - request the calling of a shareholders' meeting or call a shareholders' meeting upon judicial authorization, if neither the management board nor the supervisory board complies with a request for calling a shareholders' meeting;
  - request the inclusion of items on the agenda of the next shareholders' meeting;
  - request assertion of damage claims by or on behalf of the stock corporation against members of the management board, the supervisory board or certain third parties, if a special report reveals facts that may lead to damage claims against any such person;
  - request court appointment of another auditor of the financial statements for cause;
  - apply for the appointment or removal of liquidators for cause;
  - apply for an audit of the annual financial statements during liquidation; and
  - contest the validity of a shareholders' resolution, if such resolution provides for amortization, accumulated depreciation, reserves and accruals exceeding the limits set forth by law or the articles of association.

- A shareholder or a group of shareholders with an aggregate shareholding of at least 1% of the share capital is entitled to submit proposals on the resolutions to be adopted pursuant to each item of the agenda of an already announced shareholders' meeting and request that the proposals, including the reasoning therefore, be made available on the stock corporation's website, if any.

20.3.3.2 Dividend Rights

According to the Articles of Association, each shareholder is entitled to receive dividends, if and to the extent the annual shareholders' meeting resolves to distribute dividends. It may also exclude the distribution of the balance sheet profit in whole or in part and may also decide to allocate the balance sheet profit in whole or in part to the reserves. Profits will be distributed to the shareholders in proportion to the capital contributions made to the pro rata amount of the share capital. Contributions made in the course of the financial year shall be taken into account in proportion to the time that has lapsed since the contribution was made. If new shares are issued in the course of a financial year, the date from which the profit entitlement applies shall be defined at issuance. Profit shares not collected by shareholders within three years after becoming due are deemed forfeited and accrue to the statutory reserve of the Company. For further information, see "*20.2.1 General Regulations on Earnings Appropriation and Dividend Payments*".

20.3.3.3 Liquidation Proceeds

In the event of the Company's dissolution, any assets remaining after repayment of the outstanding debts and supplementary capital will be distributed pro-rata to the shareholders. The Company's dissolution requires a majority of at least 75% of the share capital present or represented at a shareholders' meeting. For further information, see "*20.2.2 Liquidation Rights*".

20.3.3.4 Change or Impairment of Shareholders' Rights

The Stock Corporation Act contains provisions that protect the rights of individual shareholders. As a rule, shareholders must be treated equally under equal circumstances, unless the shareholders concerned agree otherwise. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The Articles of Association do not provide for more stringent conditions for the exercise of shareholders' rights than those provided by the Stock Corporation Act. In addition, the Articles of Association do not allow changes to, or restriction on, shareholders' rights under less stringent conditions than those provided by the Stock Corporation Act.

Neither Austrian law nor the Articles of Association restrict the right of non-resident or foreign holders of the shares to hold or vote the shares nor do they provide for a special procedure for the exercise of dividend rights by non-resident or foreign holders.

20.3.3.5 Disclosure Obligations

There are no provisions in the Articles of Association governing the threshold above which share ownership must be disclosed. For further information, see "*23.2 Notification and Disclosure of Shareholdings*".

20.3.4 Redemption / Conversion of Existing Shares

Shares may be redeemed in the course of a decrease of the Company's share capital resolved by the shareholders' meeting or by the Company purchasing its own shares (for further information, see "*20.2.5 Authorization to Purchase and Sell Treasury Shares*"). A capital decrease requires a shareholders' resolution with a majority of at least 75% of the share capital present or represented at the shareholders' meeting.

Shares can be converted into a different class of shares (e.g., non-voting preferred shares), but only with the consent of the respective holder or, if the conversion negatively affects other shareholders whose shares are not converted, the consent of such shareholders.

21 CORPORATE BODIES, MANAGEMENT AND CORPORATE GOVERNANCE

21.1 Overview

In accordance with Austrian law, the Company has a two-tier board structure comprising of the Management Board and the Supervisory Board. The Management Board is responsible for the executive management and represents the Company vis-à-vis third parties. The Supervisory Board is responsible for supervising the management and internal controls of the Company. Members of the Management Board are appointed by the Supervisory Board. Members of the Supervisory Board are elected by the shareholders' meeting or delegated by shareholders afforded such a delegation right in the Articles of Association. Under Austrian co-determination rules, a stock corporation's works council has the right to delegate one works council representative to the Supervisory Board for every two shareholders' representatives at the Supervisory Board. The corporate bodies of the Company are bound in particular by the Articles of Association, the rules of procedure for the Management Board (*Geschäftsordnung für den Vorstand*), the rules of procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*) (each as adopted by the Supervisory Board) and the Austrian Corporate Governance Code (the "**ACGC**").

The following is a summary of the most important provisions of the Company's corporate legal framework.

21.2 Management Board

21.2.1 Appointment, Duties and Procedures of the Management Board

In accordance with the provisions of the Stock Corporation Act, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Under applicable law, members of the Management Board may be re-elected. However, the re-election of a member of the Management Board will enter into effect only if the re-election is confirmed by the chairperson of the Supervisory Board in writing.

The Supervisory Board may revoke the appointment of members of the Management Board prior to the expiration of their term for cause, such as gross negligence or deliberate breach of duties. The shareholders themselves are generally not entitled to appoint or dismiss members of the Management Board. However, the shareholders' meeting may adopt a resolution of no-confidence in relation to one or several members of the Management Board with simple majority of the votes cast. Such a vote of no confidence qualifies as a material reason on the basis of which the Supervisory Board may, but is not legally obliged to, revoke the appointment of the applicable member or members of the Management Board prior to the expiration of their term for cause. A revocation of a member of the Management Board from his corporate function, however, does not simultaneously terminate the underlying service agreement. Such a Management Board member's service agreement may be, and in case of a revocation will need to be, terminated subject to a three-month notice period (see "*21.2.2 Current Members of the Management Board*" below).

The Management Board is responsible for managing the Company's business and representing the Company in transactions with third parties. The Management Board is bound by Austrian law, the Articles of Association and its rules of procedure as adopted by the Supervisory Board.

As a general rule, the Management Board is not obliged to comply with orders or directives from the shareholders or the Supervisory Board. However, pursuant to the Stock Corporation Act, the Articles of Association, the Supervisory Board's rules of procedure and the Management Board's rules of procedure, as resolved by the Supervisory Board, the Management Board requires prior approval by the Supervisory Board or certain committees of the Supervisory Board to engage in certain transactions and measures, including:

a) the acquisition or disposal of interests as well as the acquisition, disposal, or closure of companies or business enterprises, provided that (i) the transaction value exceeds € 150 million or other transactions in which a high risk is embedded, independent of the transaction value or (ii) the company or business enterprise in question is a credit institution or a financial holding company the risk weighted assets (RWA) of which exceed € 1.5 billion;

b) the acquisition or sale or encumbering of real estate if their transaction value and/or encumbered value exceed € 60 million;

c) the establishment or closedown of branches (in the sense of subordinated establishments);

d) investments that in the individual case exceed purchasing costs of € 25 million and per financial year € 100 million;

e) the annual business plan and budget and any amendment or update thereof as well as investments exceeding such annual budget;

f) the raising of loans and lines of credit, as well as the issue of securities that in the individual case exceed 125 % of the company's own funds and per financial year 250 % of the company's own funds, unless such loans or lines of credit are taken out for a trust or commissioned transactions, for loans granted pursuant to the Austrian Export Guarantees Act (*Ausfuhrförderungsgesetz*), for money market transactions, or if they represent a refinancing through the Austrian National Bank. All requests are to be approved internally with a maximum maturity of one year;

g) the granting of loans and lines of credit as well as other forms of financing (such as, but not limited to, credit derivatives and receivables represented by securities) to individual borrowers or to a group of associated customers within the meaning of para. 392 of the Regulation (EU) no. 575/2013 (exposure of 10 % or more of the company's own funds) is delegated to the Risk and Credit Committee and the Related Parties Special Audit Committee, as applicable. All requests are to be approved internally with a maximum maturity of one year. Large exposure investments must be reported to the Supervisory Board at least once a year;

h) launch, abandonment and fundamental change of lines of business unless such change has already been approved in the current annual budget/business plan;

i) the determination of general principles of the Company's business policy;

j) the determination of the principles for the granting of profit shares or sales commissions as well as pension commitments to managers in the meaning of Section 80 para. 1 Stock Corporation Act;

k) the granting of options on Company shares to employees and managers of the Company or one of its affiliated companies; as well as to the Management Board and the Supervisory Board of affiliated companies;

l) the conferring of full commercial power of attorney (*Prokura)*;

m) the entering into contracts with members of the Supervisory Board or companies through which they undertake, in addition to their activities on the Supervisory Board, to provide services to the Company or to a subsidiary (Section 189a no. 7 Commercial Code) for any remuneration;

n) the conclusion of legal transactions pursuant to Section 28 Banking Act (officer transactions, transactions with affiliated persons);

o) the assumption of a managerial position (Section 80 Stock Corporation Act) within the Company within two years of the date on which the auditor's report is signed by the auditor, by the group auditor, by the auditor of a significant related company or by the auditor signing the respective audit opinion or a person active for him, who has had a significant position in the audit, to the extent not prohibited pursuant to Section 271c Commercial Code;

p) measures by which the Management Board makes use of an authorization granted to it pursuant to Section 102 para. 3 or 4 Stock Corporation Act; and

q) measures or transactions, respectively, by BAWAG P.S.K., which pursuant to statutory law, the articles of association of BAWAG P.S.K. and/or the rules of procedure for the supervisory board and/or the management board of BAWAG P.S.K. require the approval by the supervisory board of BAWAG P.S.K.

If the Management Board fails to obtain such approval, it may be held liable for any resulting damage to the Company. The transactions, however, are generally effective and binding with respect to third parties acting in good faith (other than members of the Supervisory Board).

The Management Board adopts its resolutions by simple majority vote. In case of a tie, the chairperson of the Management Board will cast the deciding vote.

The Management Board is required to report to the Supervisory Board at least annually on strategy and business policy, as well as on the future development of the Company's assets, financial and earnings position based on a forecast and fundamental questions of future business policy. In addition, the Management Board shall report to the Supervisory Board at least quarterly on the progress of business activities and on the results of the Company's business forecast. Upon request by the Supervisory Board, the Management Board is required to report to the Supervisory Board on any other matter concerning the Company.

The Company may be represented by two members of the Management Board acting jointly or by one member of the Management Board together with an authorized signatory holding a full commercial power of attorney (*Prokurist*). Currently, the Management Board consists of six members and the Company has five authorized signatories holding a statutorily defined full commercial power of attorney (*Prokuristen*).

Shareholders and other persons are not entitled to issue instructions to the Management Board nor may they use their influence to cause a member of the Management Board to act to the detriment of the

Company or other shareholders. A controlling shareholder may not cause the Company to act to its own or the other shareholders' detriment. An individual shareholder or any other person who, by exercising its influence on the Company, causes a member of the Management Board to act to the detriment of the Company or the Company's shareholders is liable to the Company for the resulting damages. In addition, the members of the Management Board are jointly and severally liable if any of their actions violates their duties.

As a general rule, shareholders cannot directly claim damages from the members of the Management Board if such members have violated their obligations with respect to the Company. Except for insolvency and tort claims, only the Company has the right to claim damages from members of the Management Board. However, the Company may waive this right or may agree to settle such a claim if at least five years have passed since the claim came into existence, the shareholders' meeting has agreed to such waiver or settlement by simple majority of the votes cast and no group of shareholders holding together at least 20%, or in special cases 5%, of the share capital objects and enters such objection into the minutes of the shareholders' meeting.

21.2.2 Current Members of the Management Board

The following table lists the positions of the members of the Management Board of the Company, the year they were first appointed and the expiration of their current term:

Name	Position	Year first appointed	End of Current Term
Anas Abuzaakouk	Chief Executive Officer	2017	2021
Enver Sirucic	Chief Financial Officer	2017	2021
Stefan Barth	Chief Risk Officer	2017	2021
David O'Leary	BAWAG P.S.K. Retail	2017	2021
Andrew Wise	Chief Investment Officer Non-retail lending	2017	2021
Satyen Shah	Chief Operating Officer (the Company) Chief Executive Officer (easybank)	2017	2021

Source: Company information.

The service agreements of the members of the Management Board of the Company expire in 2021. A member of the Management Board of the Company may terminate his respective service agreement by giving three months' notice at any time.

21.2.2.1 Anas Abuzaakouk

Anas Abuzaakouk was born in 1977 in Michigan, United States. He has 18 years of professional experience across a number of industries, countries and across various operating roles. He began his career in 1999 when he joined General Electric as a member of the GE Capital Financial Management Program. He spent the early part of his career at General Electric Corporation as a member of the Financial Management Program and Corporate Audit Staff as Senior Manager. In 2006, Mr. Abuzaakouk was promoted to Chief Financial Officer for General Electrics Middle East and Africa regional business. Mr. Abuzaakouk joined Cerberus Capital Management as Financial Services Senior Executive in 2007 focused on a variety of portfolio companies. In 2012, Mr. Abuzaakouk joined BAWAG P.S.K. as Chief Restructuring Officer, and was subsequently appointed as Chief Financial Officer in 2014. In 2017, he was appointed as Chief Executive Officer of BAWAG P.S.K. and currently serves in the same position at the Company.

21.2.2.2 Enver Sirucic

Enver Sirucic was born in 1982 in Vlasenica, Bosnia and Herzegovina. Mr. Sirucic has eleven years of professional experience in the financial services industry. He has spent his career at BAWAG P.S.K. and has extensive experience working in Corporate Finance and Banking. In 2006, Mr. Sirucic joined BAWAG P.S.K. as an expert for regulatory matters. In February 2008 he was appointed as Group Head of Regulatory Reporting and Basel II. Since then, he has held a number of positions at BAWAG P.S.K., including as Division Head ALM & Capital Management (2011 to 2013) as well as Deputy CFO and Division Head of Controlling & ALM (2014 to 2017). In 2017, he was appointed as Chief Financial Officer of BAWAG P.S.K. and subsequently of the Company and BAWAG P.S.K.

21.2.2.3 Stefan Barth

Stefan Barth was born in 1977 in Munich, Germany. He has 20 years of professional experience in international banking in various roles across different banks. He began his career when he joined Bayerische Landesbank in 1997. After successfully completing the three-year high potential program, he held various senior positions at that bank, before moving to Hypo Alpe-Adria Group in 2008, where he was Director, Risk Methods and Models before being appointed as Director, Group Risk Control in 2009. In 2013, Mr. Barth joined BAWAG P.S.K. as Division Head, Strategic Risk. In 2015, he was appointed as Chief Risk Officer of BAWAG P.S.K. and currently serves in the same position at the Company and BAWAG P.S.K.

21.2.2.4 David O'Leary

David O'Leary was born in 1975 in Massachusetts, United States. Mr. O'Leary has 20 years of professional experience, 13 years of which in the financial services industry. He began his career when he joined General Electric in 1997 as a member of the Financial Management Program at GE Plastics. He subsequently held a number of positions with increasing responsibility throughout the General Electric Corporation, including four years on GE's Corporate Audit Staff, leaving to become Chief Financial Officer of GE Capital's Media and Communications Finance unit, and as Managing Director at GE Capital Commercial Finance. In 2007, Mr. O'Leary joined Cerberus Capital Management as an operating executive focuses in financial services, before joining LNR Property Corporation as Senior Vice President, Corporate Development, Risk and Treasury in 2009. He returned Cerberus in 2011, before moving to TransCentra Inc. as Chief Financial Officer from 2011-2013. From 2013 to 2014 he was Senior Operating Executive at Cerberus supporting several financial services portfolio companies, before joining Goji Insurance as Chief Financial Officer. In 2015, Mr. O'Leary joined BAWAG P.S.K. as Deputy Head of Retail and Small Business Banking between 2015 and March 2017. Since 2017 he oversees the BAWAG P.S.K. Retail segment.

21.2.2.5 Andrew Wise

Andrew Wise was born in 1971 in Texas, United States. He has 23 years of experience in the financial services industry and held leadership positions in various geographies. Mr. Wise began his career when he joined Legg Mason Wood Walker as a Corporate Finance Analyst in 1993. In 1995, Mr. Wise joined Wasserstein Perella & Co. as a Senior Analyst in the Leveraged Finance Group, before moving to Morgan Stanley, where he started as analyst and was later promoted to Associate in the High Yield Research Group from 1996-1999 prior to his appointment in 1999 as Vice President. Mr. Wise was promoted to Executive Director in 2001 and Managing Director in 2004 and headed the Morgan Stanley Special Situations Group for Non-Japan Asia from 2004 to 2008. From 2008 to 2010, he was Managing Director and Head of Multi-Asset Class Investing at Mount Kellett Capital Management LP. In 2012, Mr. Wise joined BAWAG P.S.K. as Chief Investment Officer and Head of International Business. In 2017, he was appointed as a member of the Management Board of BAWAG P.S.K. and subsequently of the Company.

21.2.2.6 Satyen Shah

Satyen Shah was born in 1978 in Virginia, United States. He has 17 years of professional experience across multiple industries, mainly financial services, spent in various geographies with a strong investing and operating background. He began his career in 2000 as a member of the GE Capital Financial Management Program, General Electric's two-year leadership development training program. Mr. Shah then subsequently held a number of leadership roles with increasing responsibility throughout the General Electric Corporation, including four years on GE's Corporate Audit Staff, three years as Managing Director of GE Capital's Business Development / M&A and Strategy team, two years as Chief Financial Officer of GE Capital Middle East & Africa and three years as Head of International Investor Relations (excluding Europe). In 2014, Mr. Shah joined BAWAG P.S.K. as Chief Administrative Officer and Head of Strategy. In 2015, he was appointed to his current position as Chief Operating Officer of BAWAG P.S.K. and subsequently of the Company. In addition, he became the Chief Executive Officer of *easygroup*.

21.2.3 Contact

The members of the Management Board may be contacted at the Company's business address at Wiesingerstraße 4, 1010 Vienna, Austria.

21.2.4 Management Board Compensation

The appropriate level of remuneration for the members of the Management Board is determined by the Supervisory Board's committee for Management Board matters. The remuneration of the members of the Management Board comprises several components: a non-performance-related element (fixed compensation), a performance-related element (variable compensation) and pension benefits (as part of fixed compensation) as further outlined below. Regarding the total remuneration see "*21.2.4.4 Total Remuneration*".

21.2.4.1 Non-Performance-Related Remuneration

The non-performance-related remuneration element consists of a fixed salary (base salary), which is paid out in fourteen monthly installments (due to the Austrian income tax system) or, in case of one U.K. based Management Board member, in twelve monthly installments, as well as additional benefits.

The additional benefits include, among other things, disability and accident insurance and travel insurance policies, and continued salary payments in the event of inability to work. In addition, those Management Board members for whom Austria is not the home country receive contributions to the health care insurance and an allowance for the cost of living at the work place as additional benefits. The members of the Management Board are entitled to be covered by directors and officers insurance policies (D&O insurance policy). Non-European expatriates of the Management Board receive allowances for flights/travelling home; school, tuition and childcare for their children; and annual tax assistance. All Management Board members receive a car allowance instead of a company car.

The Management Board members are entitled to severance pay upon the termination of their contract due to termination (*Kündigung*) by the Company without cause or the Management Board member's death or disability prior to the end of the term. The severance payment will be the equivalent of one year's gross base salary (excluding the above mentioned benefits).

21.2.4.2 Performance-Related Remuneration

All agreements governing, among other things, compensation of members of the Management Board provide for variable remuneration based on the Company's remuneration policy, which has been approved by the Committee for Management Board matters or by the Remuneration Committee respectively acknowledged by the Supervisory Board within the regulatory framework imposed by the CRD IV, the BWG and the EBA guidelines on sound remuneration policies (EBA/GL/2015/22). Bonus awards are generally limited to 100% of fixed compensation and if a bonus award above 100% of fixed compensation is granted, the process set out under the BWG must be followed.

Bonus awards of up to 200% of fixed compensation can be considered by the Committee for Management Board Matters in the event that there has been significant outperformance over the stated goals and targets for BAWAG Group and the individual if BAWAG P.S.K.'s general shareholders meeting has resolved on an increase (either Company-wide or for the relevant group) of the bonus cap to up to 200% based on a recommendation to such effect from BAWAG P.S.K. On December 13, 2016, the general shareholders meeting of BAWAG P.S.K. resolved to increase the bonus cap to 200% in respect of compensation payments in the financial year 2016. On September 15, 2017, the Shareholders' Meeting approved that the annual variable compensation for the financial year 2017 and subsequent years until further notice is increased to up to 200% of the fixed compensation for 50 key function holders (in particular Management Board members of the Company and BAWAG P.S.K., respectively, Austrian and international top experts of the senior leadership team of BAWAG Group and specialists).

Generally, 40% of any bonus award amount is deferred. For bonuses above 100% of the fixed compensation or above € 150,000 (which usually applies to Management Board members' bonus awards), 60% of the bonus award is deferred for a period of five years. The deferred amounts are paid in four annual upfront payments in years two through five, with a final bonus payment in year six following a final appraisal. The bonus payment process is subject to review by the Committee for Management Board Matters, based on an individual performance assessment and an assessment of the sustainable success of the Company measured by profits before tax as reported in the Company's financial statements in accordance with IFRS.

The variable remuneration for 2017 (including the deferred compensation) has not been decided by the Committee for Management Matters yet, as it will also depend on the 2017 results. The bonus payments in 2016 and 2017 (to date) are included in the total remuneration as outlined in "*21.2.4.4 Total Remuneration*".

21.2.4.3 Pensions and comparable benefits

Two members of the Management Board receive a defined contribution pension plan with a Company contribution of 15% of earned base annual gross salary (without benefits) into an Austrian Pension fund (*Pensionskasse*). The four Management Board members that are U.S. citizens receive 15% of their earned base gross salary (without benefits) paid out on a net amount calculation in order to give them the opportunity to pay into an individual U.S. pension instrument. This is due to the non-portability of European pension fund assets into adequate U.S. pension plans. The respective amounts are included in the total remuneration as outlined in "*21.2.4.4 Total Remuneration*".

None of the existing members of the Management Board have been granted direct commitments in the form of defined benefit plans. Consequently, there are no amounts set aside or accrued by the Company (or its subsidiaries) to provide retirement or similar benefits.

21.2.4.4 Total Remuneration

Total remuneration paid to members of the Management Board for their activities for BAWAG Group companies in the financial year 2016 totaled approximately € 17.5 million. Total remuneration paid to members of the Management Board for their activities for BAWAG Group companies in the financial year 2017 is expected to total approximately € 25.8 million. This includes bonus payments paid in March 2017 totaling approximately € 5.4 million reflecting bonus entitlements accrued in previous years. The bonus which the members of the Management Board may be awarded for their activities for BAWAG Group companies in the financial year 2017 and that will be paid in subsequent financial years will be determined by the Committee for Management Matters, whereby the maximum variable compensation has been set by the Shareholders' Meeting at 200% of the fixed compensation (see "*21.2.4.2 Performance-Related Remuneration*").

21.2.4.5 Unilateral Cancellation of Share Appreciation Rights from 2013 and 2014

In 2013 and 2014, certain members of BAWAG P.S.K.'s senior management including current members of the Management Board Messrs. Abuzaakouk, Shah, Sirucic and Wise, were granted share appreciation rights under individual award agreements according to a share appreciation plan initially established by PSH. In 2016, the obligations of PSH were assumed by Sacher Management LLC ("**Sacher**"), a Delaware limited liability company ultimately owned by affiliates of Cerberus and GoldenTree. On June 5, 2017, in view of concerns raised by the FMA and the ECB with respect to the compliance of the plan with applicable regulatory remuneration rules, Sacher served a unilateral cancellation notice with respect to all outstanding award agreements and the awards made thereunder (including any portions already vested and any related rights and claims) including to the aforementioned members of the Management Board. For further details, see "*21.5.2.2 Resolution Roadmap Agreement*".

21.3 Supervisory Board

21.3.1 Election, Delegation, Duties and Procedures of the Supervisory Board

Pursuant to the Stock Corporation Act, the supervisory board of an Austrian stock corporation has to consist of at least three and a maximum of 20 members elected by the shareholders' meeting or delegated by shareholders who have been afforded the right to delegate supervisory board members in the articles of association either personally or because they hold specific registered shares granting such delegation right. In an Austrian stock corporation listed on a regulated market, the total number of delegated members shall not exceed one third of the supervisory board members. C-Rule 52a of the ACGC provides that the number of supervisory board members (without employees' representatives) of an Austrian stock corporation that is listed on a regulated market shall not exceed ten members.

Under Austrian co-determination rules, an Austrian listed stock corporation's works council has the right to delegate one works council representative to the supervisory board for every two shareholders' representatives at the supervisory board. Unlike the members elected or delegated by the shareholders, the members delegated by the works council are employees of BAWAG Group.

Effective as of January 1, 2018, supervisory boards of listed stock corporations and non-listed stock corporations with more than 1,000 employees must comply with a gender quota stipulated in the Stock Corporation Act. Pursuant to this gender quota legislation at least 30% of the members of the supervisory board have to be female and male, respectively. However, the gender quota legislation applies only if the applicable supervisory board is composed of at least six shareholder representatives and if at least 20% of all employees of the applicable stock corporation are female or male, respectively. The gender quota legislation will apply to elections and delegations of members of the supervisory board which occur after December 31, 2017. After December 31, 2017, an election or delegation of a member of the supervisory board in violation of the quota legislation will be void.

The Articles of Association of the Company specify that the Supervisory Board shall comprise six members (excluding employees' representatives). Of these six members of the Supervisory Board, four members are elected by the shareholders' meeting, and two members may be delegated by Promontoria Holding 212 B.V. and GoldenTree Holdco Lux 2 S.à r.l. (who are both Selling Shareholders). The Cerberus Shareholders have agreed vis-à-vis the Company to exercise this right to delegate one member of the Supervisory Board as long as the combined shareholdings of all Cerberus Shareholders equals or exceeds 20% of the Existing Shares. In the event that the combined shareholdings of all Cerberus Shareholders fall below this 20%-threshold for a consecutive period of four weeks, the Cerberus Shareholders have agreed to vote, in the next shareholders' meeting, in favor of a resolution eliminating their delegation right. Likewise, the GoldenTree Shareholders have agreed vis-à-vis the Company to exercise this right to delegate one member of the Supervisory Board as long as the combined shareholdings of all GoldenTree Shareholders equals or exceeds 20% of the Existing Shares. In the event that the combined shareholdings of all GoldenTree Shareholders fall below this 20%-threshold for a consecutive period of four weeks, the GoldenTree Shareholders have agreed to vote, in the next shareholders' meeting, in favor of a resolution eliminating their delegation right.

As of the date of this Prospectus, the Supervisory Board consists of four members elected by the shareholders' meeting, two members delegated by Promontoria Holding 212 B.V. and GoldenTree Holdco Lux 2 S.à r.l. When the Company has become a listed company three members will be delegated by the works council.

According to Rule C-54 of the ACGC, in corporations with a free float of more than 20%, the members of the Supervisory Board elected by the shareholders' meeting or delegated by shareholders shall include at least one independent member who is not a shareholder with a stake of more than 10% or who represents such a shareholder's interest. In the case of corporations with a free float over 50%, at least two members of the Supervisory Board must meet these criteria. Currently, four members of the Supervisory Board serve as independent members in the meaning of Rule C-54 of the ACGC.

The Supervisory Board supervises and monitors the Management Board, but is not authorized to make management decisions. Supervision is exercised by review, discussion and approval, as required, of reports and resolution proposals prepared by the Management Board. In addition, the Supervisory Board may request reports on specific matters relating to the Company. The Supervisory Board is responsible for appointing and removing members of the Management Board and is authorized to represent the Company in transactions with members of the Management Board. Furthermore, certain material decisions of the Management Board require the prior consent of the Supervisory Board pursuant to Austrian law or in accordance with the Articles of Association or the rules of procedure for the Management Board (see "*21.2.1 Appointment, Duties and Procedures of the Management Board*").

The Supervisory Board elects a chairperson and at least one deputy chairperson from among its members. The Supervisory Board determines its own rules of procedure. The meetings of the Supervisory Board shall be held whenever necessary for the fulfillment of the Supervisory Board's duties. The Supervisory Board meets at least quarterly. The Supervisory Board has a quorum if at least three members are present. In the event of a tie, the chairperson of the Supervisory Board, or in case of his/her absence the deputy chairperson, casts the deciding vote.

Unless a shareholder representative was elected for a shorter term of office, the term of office of a shareholder representative on the Supervisory Board elected by the shareholders' meeting runs until the close of that shareholders' meeting which votes on the discharge from liability for the fourth financial year after such election, not counting the financial year in which the applicable shareholder representative was elected. However, an exception applies to the members of the so-called first supervisory board established at inception of the Company as an Austrian stock corporation. Their terms of office shall end at the shareholders' meeting that is convened to vote on the discharge from liability. The current Supervisory Board of the Company qualifies as first supervisory board. Pursuant to the Articles of Association, a Supervisory Board member may be re-elected.

The shareholders' meeting may, by resolution requiring a majority of at least 50% of the votes cast, revoke the appointment of a shareholder representative on the Supervisory Board prior to the end of such member's term of office. However, if a Supervisory Board member has been delegated by the Cerberus Shareholders or the GoldenTree Shareholders, such member can be removed by a court upon request of a shareholder or a group of shareholders holding at least 10% of the share capital if an important reason related to such delegated member exists or by the shareholders' meeting by a simple majority of the votes cast if the relevant Selling Shareholders are no longer entitled to delegate members to the Supervisory Board. Further, if a Supervisory Board member has been delegated by a works council, such member can be removed only by the works council.

21.3.2 Current Members of the Supervisory Board

As of the date of this Prospectus, the Supervisory Board comprises only shareholder representatives. As of the first day of trading of the Existing Shares on the Vienna Stock Exchange, there will be also employee representatives delegated to the Supervisory Board. The following table lists the positions of the current members of the Supervisory Board of the Company as well as the members which according to the future works council shall be the designated employee representatives, and in each case the year they were first appointed as members of the Supervisory Board of the Company and the expiration of their current term, to the extent applicable:

Name	Position	Year first appointed	End of Current Term
Pieter Korteweg	Chairperson (delegated by the Cerberus Shareholders)	2017	n/a
Christopher Brody	First Deputy Chairperson	2017	2018
Egbert Fleischer	Second Deputy Chairperson	2017	2018
Frederick Haddad	Member (delegated by the GoldenTree Shareholders)	2017	n/a
Kim Fennebresque	Member	2017	2018

Name	Position	Year first appointed	End of Current Term
Adam Rosmarin	Member	2017	2018
Beatrix Pröll	Member (works council representative)	2017	n/a
Verena Spitz	Member (works council representative)	2017	n/a
Ingrid Streibel-Zarfl	Member (works council representative)	2017	n/a

Source: Company information.

21.3.2.1 Pieter Korteweg

Pieter Korteweg was born in 1941 in Klundert, the Netherlands. Dr. Korteweg has been appointed as chairman of the Supervisory Board in 2017. He was appointed as member of the supervisory board of BAWAG P.S.K. in 2007 and became deputy chairman of the supervisory board in 2010 respectively chairman of the supervisory board in 2017. Dr. Korteweg started his career as an academic, serving as Professor of Economics at Erasmus University in Rotterdam from 1971 to 1981 and Carnegie-Mellon University from 1973 to 1974. From 1981 to 1986 he served as Treasurer General of the Dutch Treasury, and was President and CEO of Robeco Group from 1987 to 2001. In 2002, Dr. Korteweg joined Cerberus as Vice Chairman and Senior Advisor of Cerberus Global Investment Advisors, LLC, in which role he held various positions in a number of Cerberus portfolio companies. Dr. Kortweg is currently chairman of Cerberus Global Advisors LLC, in which role he oversees Cerberus businesses in the Netherlands, sources transactions and provides consulting advice relating to Cerberus portfolio investments. During his career, Dr. Korteweg has served as board member of several companies in the financial services industry, such as the Dutch Central Bank (Vice Chairman), Aozora Bank Ltd., Lucida plc., Capital Home Loans Ltd. and the Dutch Pension and Insurance Supervisory Authority (Chairman).

21.3.2.2 Christopher Brody

Christopher Brody was born in 1968, in New York City, USA. Mr. Brody has been appointed as deputy chairman of the Supervisory Board in 2017. In 1991, Mr. Brody began his career as a Financial Analyst at Franklintown Development Corporation in New York, before becoming a Corporate Research Analyst and Group Leader at Fried, Frank, Harris, Shriver & Jacobson in 1992. He was a Partner at TGV Partners between 1996 and 2001, and Managing Director of Cerberus Capital Management between 2001 and 2008. Mr. Brody joined BAWAG P.S.K. as Chief Investment Officer in 2008, and held this position until 2011. During the same period, he was also Managing Director of BAWAG Holding GmbH. In 2012, he became President and Chief Investment Officer at Stillwater LLC.

21.3.2.3 Egbert Fleischer

Egbert Fleischer was born in 1957 in Wiener Neustadt, Austria. Mr. Fleischer was first appointed as member of the Supervisory Board and as member of the supervisory Board of BAWAG P.S.K. in 2017. He further was appointed as member of the supervisory board of start:bausparkasse in 2016. He began his banking career at BAWAG P.S.K. in 1995 and held various sales and, predominantly, risk management positions within the Group, including Chief Risk Officer in Istrobanka a.s. / Slovakia (2002 – 2007), Head of Staff Division Special Projects (2007 –2012) and Head of Credit Risk Management for Financial Institutions, Public Sector, Credit Risk in Treasury and Participation Risk Management (2013 – 2015). Mr. Fleischer retired from his function in BAWAG P.S.K. in May 2015 and currently works as an Independent Executive Consultant.

21.3.2.4 Frederick Haddad

Frederick Haddad was born in 1948, in New York City, USA. Mr. Haddad was first appointed as member of the Supervisory Board in 2017 and as member of the supervisory board of BAWAG P.S.K. in 2013. Mr. Haddad began his banking career when he joined the Irving Trust Company (now BNY Mellon) in 1974, where he was involved in international banking, multinational corporate banking and leveraged finance. In 1997, Mr. Haddad joined Credit Lyonnais, USA, (now Credit Agricole) as Senior Vice President where he managed the Leveraged Finance, Loan Trading, Loan Syndication, and Asset Recovery groups. He was a Managing Director at the Royal Bank of Canada from 1997 to 1999, where he established and managed RBC's U.S. leveraged finance business. Mr. Haddad joined GoldenTree at its inception in 2000 is a Partner, Executive Committee Member and Senior Portfolio Manager.

21.3.2.5 Kim Fennebresque

Kim Fennebresque was born in 1950, in New York, United States. Mr. Fennebresque was first appointed as member of the Supervisory Board in 2017. He started his career as an attorney, before joining The First Boston Corporation (now Credit Suisse) as an investment banker. He held several management positions at this firm and became a Managing Director in 1985. In 1991, Mr. Fennebresque left First Boston to become a General partner at Lazard Frères, before joining UBS in 1994 to run M&A and Corporate Finance. Mr. Fennebresque joined Cowen Group as Chief Executive Officer in 1999, leading the effort to separate Cowen from its parent Société Générale in 2005-2006. He retired as CEO of Cowen Group in 2008, and currently serves as Senior Advisor to that Company. Mr. Fennebresque was Chairman of Dahlman Rose & Company between 2010 and 2012, and Chief Executive Officer from 2011-2012. During his career, he has served for several years in the Finance Committee of the Rockefeller Brothers Funds and on the board of a number of charitable organizations. In addition, Mr. Fennebresque is a Board Member and Chairman of the Compensation, Nominating and Governance Committee of the Board of Ally Financial following his appointment to the Board in 2009 by the U.S. Department of the Treasury.

21.3.2.6 Adam Rosmarin

Adam Rosmarin was born in 1963, in New York City, USA. Mr. Rosmarin started his career in real estate development, before joining Sandler O'Neill + Partners, L.P. in 1991. He was appointed Associate Director of that firm in 1993, and Managing Director in 1996. He was appointed to his current position as Principal in 1997. Mr. Rosmarin was a member of the Board of Directors of Chrysler Financial, chairing the Board's audit committee, from 2007 until the company's sale in 2011.

21.3.2.7 Beatrix Pröll

Beatrix Pröll was born in 1958 in Upper Austria, Austria. She started her professional career at Raiffeisenlandesbank Oberösterreich in 1977. She joined BAWAG in 1983 where she became branch manager of a branch in Upper Austria in 1989. Since 1990, Ms. Pröll is a member of the works council of BAWAG P.S.K. in Upper Austria and was appointed as its chairperson in 1998. Ms. Pröll will be delegated by the works council as a member of the Supervisory Board.

21.3.2.8 Verena Spitz

Verena Spitz was born in 1970 in Vienna, Austria. Ms Spitz started her career at BAWAG P.S.K.in 2001 and became a member of BAWAG P.S.K.'s works council in 2004. Ms. Spitz was appointed as deputy chairperson of BAWAG P.S.K.'s works council in 2016. Ms. Spitz will be delegated by the works council as a member of the Supervisory Board.

21.3.2.9 Ingrid Streibel-Zarfl

Ingrid Streibel-Zarfl was born in 1959, in Krems/Donau, Austria. She started her banking career at BAWAG Group in 1977 and held various positions within BAWAG Group, including as works council representative in Vienna (since 1981, and full-time since 1988) and as representative of the central works council (*Zentralbetriebsrat*) (since 1988). In 1992, Ms. Streibel-Zarfl was appointed as chairperson of BAWAG P.S.K.'s works council in Vienna, and in 1994 also as chairperson of BAWAG P.S.K.'s central works council. Further, Ms. Streibel-Zarfl has been actively involved in establishing and agreeing BAWAG P.S.K's womens' promotion programs. Ms. Streibel-Zarfl will be delegated by the works council as a member of the Supervisory Board.

21.3.3 Contact

The members of the Supervisory Board may be contacted at the Company's business address at Wiesingerstraße 4, 1010 Vienna.

21.3.4 Committees

Pursuant to the Stock Corporation Act, the Supervisory Board may establish one or more committees from among its members in order to prepare its discussions and resolutions or to supervise the execution of its resolutions. Supervisory Board members appointed as employee representatives are entitled to a seat in each Supervisory Board committee, except in the case of meetings and votes concerning the relationship between the Company and the Management Board members, unless such resolutions concern the appointment or revocation of Management Board members or the granting of share options.

The committees consist of at least three members. In case a committee only consists of two elected members and one employee representative, the committee is only considered to have a quorum if both elected members are present. Unless the Supervisory Board issues special rules of procedures for its committees, the rules of procedure for the Supervisory Board apply to the committees mutatis mutandis.

Given that the Existing Shares will be listed on a regulated market, the Company is required by Austrian law to establish an audit committee ("**Audit and Compliance Committee**"), which must convene at least two meetings in each financial year. In accordance with Rules C-41 and C-43 of the ACGC, the Supervisory Board shall further establish a nomination committee and a remuneration committee both of which may be consolidated in a single committee.

As of the date of this Prospectus the Supervisory Board has set up the following five committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board:

21.3.4.1 Audit and Compliance Committee

The Audit and Compliance Committee is *inter alia* responsible for auditing and preparing the approval of the annual financial statements, auditing the consolidated financial statements, the proposal for the distribution of profit, the Management Report and the Group Management Report as well as the Corporate Governance Report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. The Audit and Compliance Committee also prepares the selection of the auditor and monitors the independence of the auditor and the auditor of the consolidated financial statements, in particular with regard to the performance of additional services.

One member of the Audit and Compliance Committee must be a financial expert with special knowledge and practical experience in finance, accounting and reporting. Persons who were members of the Management Board, executives or auditors of the Company or persons having certified the Group's consolidated financial statements within the last three years may not be appointed as a financial expert or chairperson of the Audit and Compliance Committee.

The Audit and Compliance Committee shall hold at least two meetings per financial year.

As of the date of this Prospectus the members of the Audit and Compliance Committee are Adam Rosmarin (chairperson and financial expert), Kim Fennebresque (deputy chairperson), Frederick Haddad, and Egbert Fleischer as the shareholders' representatives. According to the works council of the Company, the designated employee representatives for the Audit and Compliance Committee are Ingrid Streibel-Zarfl and Verena Spitz.

21.3.4.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee *inter alia* submits proposals to the Supervisory Board for appointments to positions on the Management Board, designs a profile for vacancies to be filled on the Management Board and prepares succession planning for the Management Board. It also deals with the preparation of proposals by the Supervisory Board to the Shareholders' Meeting to fill vacant seats on the Supervisory Board. In addition, the Nomination and Remuneration Committee is *inter alia* responsible for monitoring the recruiting process with regard to senior management and approval of the general principles of the remuneration policy for employees of the Company.

As of the date of this Prospectus the members of the Nomination and Remuneration Committee are Pieter Korteweg (chairperson), Kim Fennebresque (deputy chairperson and remuneration expert), Christopher Brody, and Egbert Fleischer as the shareholders' representatives. According to the works council of the Company, the designated employee representatives on the Nomination and Remuneration Committee are Ingrid Streibel-Zarfl and Beatrix Pröll.

21.3.4.3 Committee for Management Board Matters

The Committee for Management Board Matters resolves on the content of employment agreements with members of the Management Board including their standard terms and specific remuneration as well as bonus policies for members of the Management Board, and the termination of such agreements. It further reviews the remuneration policies and practices as well as remuneration related incentive structures as far as members of the Management Board are concerned.

The Committee for Management Board Matters comprises only shareholder representatives. As of the date of this Prospectus the members of the Committee for Management Board Matters are Pieter Korteweg (chairperson), Kim Fennebresque (deputy chairperson), Christopher Brody, Egbert Fleischer and Frederick Haddad.

21.3.4.4 Risk and Credit Committee

The Risk and Credit Committee, to the extent applicable, *inter alia* approves the granting of loans and lines of credit as well as other forms of financing in each case which result in a large exposure of the Company, as well as approves transactions with directors, officers and their related parties.

It further approves significant credit policies and advises the Management Board regarding general questions of credit and risk policy, as well as supports the Supervisory Board in monitoring of *inter alia* risks and risk strategy. To the extent the aforementioned decisions relate to the operative banking business, it may be made that the relevant decisions are made by the competent corporate bodies of BAWAG P.S.K. only.

As of the date of this Prospectus the members of the Risk and Credit Committee are Christopher Brody (chairperson), Frederick Haddad (deputy chairperson), Egbert Fleischer, and Adam Rosmarin as the shareholders' representatives. According to the works council of the Company, the designated employee representatives for the Risk and Credit Committee are Ingrid Streibel-Zarfl and Beatrix Pröll.

21.3.4.5 Related Parties Special Audit Committee

The Related Parties Special Audit Committee *inter alia* audits whether certain transactions of the Company or its subsidiaries with related parties according to IAS 24, which exceed an amount of € 10 million, are granted at arm's length on terms no more favorable than would be given to non-related parties.

As of the date of this Prospectus the members of the Related Parties Special Audit Committee are Christopher Brody (chairperson), Adam Rosmarin (deputy chairperson), Kim Fennebresque, and Egbert Fleischer as the shareholders' representatives. According to the works council of the Company, the designated employee representatives for the Related Parties Special Audit Committee are Ingrid Streibel-Zarfl and Beatrix Pröll.

21.3.5 Supervisory Board Compensation

The compensation for the current members of the Supervisory Board as members of the first supervisory board of the Company will be determined by the Shareholders' Meeting, which resolves on the discharge of the members of the first Supervisory Board. From today's perspective, that will be the ordinary shareholders' meeting held in 2018.

On September 15, 2017 the Supervisory Board has resolved on a general remuneration policy for the members of the Supervisory Board which shall apply after the end of the term of office of the first supervisory board. The remuneration policy is based on the assumption that the members of the Supervisory Board of BAWAG Group AG will also be members of BAWAG P.S.K. and takes into consideration the holding function of the Company as well as that the members of the Supervisory Board will use the larger part of their time on their supervisory board functions at BAWAG P.S.K. as the principal credit institution of the BAWAG Group. The shareholders' meeting of BAWAG P.S.K. has resolved a general remuneration policy for the members of the supervisory board of BAWAG P.S.K. which is based on the same assumptions and considerations, but does already apply as at the time of this Prospectus, since the supervisory board of BAWAG P.S.K. is not a first supervisory board. In both the Company and BAWAG P.S.K. the remuneration according to the respective general remuneration policy consists of a fixed remuneration only with no variable compensation or attendance fees being granted.

The following table shows the remuneration which shall be paid according to the general remuneration policies at the Company and BAWAG P.S.K.:

Name	Addition BAWAG Group AG	Total BAWAG Group AG	Addition BAWAG P.S.K.	Total BAWAG P.S.K.	Total BAWAG Group AG and BAWAG P.S.K.
	(in € thousand per year)				
All supervisory board members	n/a	31.25	n/a	93.75	125.00
Seat in a Supervisory Board committee	6.25	37.5	18.75	112.50	150.00
Chair in Audit and Compliance Committee or Committee for Management Matters	18.75	50.00	56.25	150.00	200.00
Deputy chairman of the Supervisory Board	25.00	56.25	75.00	168.75	225.00
Chairman of the Supervisory Board	43.75	75.00	131.25	225.00	300.00

Source: Company information.

The chairperson of the Supervisory Board and the deputy chairpersons shall not be entitled to any fixed add-on remuneration for committee memberships or committee chairmanships and the other members of the Supervisory Board shall be entitled only once to the fixed add-on remuneration for committee memberships or committee chairmanships irrespective of the number of member-ships and functions in the Committees.

None of the members of the Supervisory Board has been granted direct commitments in the form of defined benefit plans. Consequently, there are no amounts set aside or accrued by the Company (or its subsidiaries) to provide retirement or similar benefits.

Remuneration of members of the supervisory board of the Company (at that time BAWAG Holding GmbH) amounted to € 0.4 million for 2016. It should be noted, however, that this figure is, due to the new set-up of the governance structure, including the Supervisory Board, not comparable to the current remuneration.

21.4 Duty of Loyalty and Care

Members of the Management Board and Supervisory Board owe a duty of loyalty and care to the Company. In carrying out their duties, members of the Management Board and Supervisory Board must exercise the standard of care of a prudent and diligent business person. Both boards are required to take into account a broad range of considerations when making their decisions, including the Company's interests and those of the Company's shareholders, employees, creditors and the public.

Under the Stock Corporation Act, shareholders and other parties are prohibited from giving instructions to the Management Board or the Supervisory Board and from using their influence to cause a member of the Management Board or Supervisory Board to act in a way that is harmful to the Company or its shareholders.

A controlling shareholder may not cause the Company to take measures disadvantageous to the Company or the Company's other shareholders. An individual shareholder or any other person exerting influence which causes a member of the Management Board or the Supervisory Board to act in a way that is unfavorable to the Company or the Company's shareholders may be liable for damages to the Company and the shareholders. Board members who have neglected their duties by taking such actions may be jointly and severally liable for damages to the Company.

In general, only the Company, and not an individual shareholder, has a direct recourse against the members of the Management Board and the Supervisory Board. The Company may waive the right to a recourse or settle the claim only if (i) five or more years have passed since the alleged breach of duty, (ii) the Company's shareholders approve the waiver or settlement at a shareholders' meeting by simple majority of the votes cast, and (iii) shareholders opposing such a shareholders' resolution do not hold, in the aggregate, 5% or more of the Existing Shares.

21.5 Certain Information on the Members of the Management Board and the Supervisory Board; Conflict of Interest

21.5.1 Activities Performed outside BAWAG Group

The following table sets out the names of companies and business partnerships, excluding the Company and its subsidiaries, of which each of the members of the Management Board and Supervisory Board has been a member of the administrative, management or supervisory boards or partner, as the case may be, at any time in the five years prior to the date of this Prospectus.

Members of the Management Board

Name	Name of the company	Position held	Position still held
Anas Abuzaakouk	–	–	–
Enver Sirucic	Verband österreichischer Banken und Bankiers	member of the management board	Yes
Stefan Barth	Österreichische Bankwissenschaftliche Gesellschaft	member of the management board	Yes
	HYPO ALPE-ADRIA-BANK SpA	member of the supervisory board	No
David O´Leary	Amundi Austria GmbH	member of the supervisory board	Yes
Andrew Wise	–	–	–
Satyen Shah	MFC Merchant Bank	member of the supervisory board	No

Source: Company information.

Members of the Supervisory Board

Name	Name of the company	Position held	Position still held
Pieter Korteweg	AerCap Holdings N.V.	non-executive chairman of the board of directors	Yes
	Anthos Amsterdam	senior advisor	Yes
	Cerberus Global Investment Advisors LLC	chairman	Yes
	Cerberus Global Investments B.V.	supervisory director	Yes

Name	Name of the company	Position held	Position still held
	Haya Real Estate S.L.U.	non-executive member of the board of directors	No
	Promontoria MMB (SAS)	non-executive member of the board of directors	No
	Homerica Investments B.V.	supervisory director	No
	Homeside Holding B.V.	managing director	No
	Promontoria Holding 62 B.V	managing director	No
	Promontoria Holding 212 B.V.	managing director	No
	Promontoria 36 Coöperatie U.A.	managing director	No
	Promontoria Holding Coöperatie U.A.	managing director	No
	Promontoria Holding XI B.V.	managing director	No
	Promontoria Holding XIX B.V.	managing director	No
	Promontoria Holding XX B.V.	managing director	No
	Promontoria Japan Holding 3 B.V.	managing director	No
	Promontoria Japan Holding III B.V.	managing director	No
	Promontoria Japan Holding Coöperatie 3 U.A.	managing director	No
	Promontoria Sacher Holding N.V.	managing director	No
	Promontoria Sacher Services N.V.	managing director	No
	Saberasu Japan Investments II B.V.	managing director	No
	Capital Home Loans ltd.	chairman board	No
	Gesnova Gestion Immobiliaeria SLU	non-executive member of the board of directors	No
	Reser Subastas y Servicios Immobiliarios SAU	non-executive member of the board of directors	No
	Lucida plc	non-executive member board	No
	Showa Jisho Co., Ltd.	non-executive member of the borard of directors	No
	Delos Holding B.V.	supervisory director	No
	Saberasu Japan Holding B.V.	supervisory director	No
	Constantina Holding B.V.	managing director	No
	International Gardenland Holding B.V.	managing director	No
	Kheiron Management B.V.	managing director	No
	Komagata Antilles Holding N.V.	managing director	No
	Komagata Holding B.V.	managing director	No
	Lekkum Holding B.V.	managing director	No
	Marco Polo Investments B.V.	managing director	No
	Obasa Holding B.V.	managing director	No
	Promontoria Antilles Holding N.V.	managing director	No
	Promontoria Antilles Holding II N.V.	managing director	No

Name	Name of the company	Position held	Position still held
	Promontoria Azur Cluster II (2) B.V.	managing director	No
	Promontoria Azur Cluster III (2) B.V.	managing director	No
	Promontoria Azur Essen II B.V.	managing director	No
	Promontoria Azur Hamburg B.V.	managing director	No
	Promontoria Azur Hannover B.V.	managing director	No
	Promontoria Azur Holding II B.V.	managing director	No
	Promontoria Azur Suhl B.V.	managing director	No
	Promontoria Global Investments I B.V.	managing director	No
	Promontoria Holding B.V.	managing director	No
	Promontoria Holding II B.V.	managing director	No
	Promontoria Holding III B.V.	managing director	No
	Promontoria Holding VI B.V.	managing director	No
	Promontoria Holding VII B.V.	managing director	No
	Promontoria Holding XII B.V.	managing director	No
	Promontoria Sacher Coöperatie U.A.	managing director	No
	Promontoria Sacher Holding B.V.	managing director	No
	Raquert Holding B.V.	managing director	No
	Saberasu Japan Investments B.V.	managing director	No
	Torrassa B.V.	managing director	No
Christopher Brody	Stillwater LLC	president and chief investment officer	Yes
	eMagin Corporation	member of the board of directors	Yes
	Caicos Resorts Limited	member of the board of directors	Yes
	C.R. Hotel Limited	member of the board of directors	Yes
Frederick Haddad	ABANA	director	Yes
	GoldenTree Asset Management LP	partner, executive committee member and portfolio manager	Yes
Egbert Fleischer	Gesellschaft der Freunde der Österreichischen Nationalbibliothek	member of the board of directors	Yes
	Bruno Kreisky Stiftung für Menschenrechte	member of the board of trustees	Yes
	Österreichisches Gesellschafts- und Wirtschaftsmuseum	member of the board of trustees	Yes
Kim Fennebresque . . .	Ally Financial Inc.	member of the board of directors	Yes
	Bluelinx Holdings	non-executive chairman of the board of directors	Yes
	Albertsons Companies Inc.	member of the board of directors	Yes

Name	Name of the company	Position held	Position still held
	DynCorp International	member of the board of directors	No
Adam Rosmarin	–	–	–
Verena Spitz	–	–	–
Ingrid Streibel-Zarfl . . .	GPA-djp - Gewerkschaft der Privatangestellten, Druck, Journalismus, Papier	member of the management board	Yes
	BONUS Pensionskassen Aktiengesellschaft	member of the supervisory board	Yes
	Österreichische Galerie Belvedere Wissenschaftliche Anstalt öffentlichen Rechts	member of the board of trustees	No
Beatrix Pröll	Oberösterreichische Gebietskrankenkasse (Körperschaft des öffentlichen Rechts)	member of the management board	Yes

Source: Company information.

21.5.2 Existing Shares, Conversion and Option Rights held by Board Members

As of the date of this Prospectus and as reported to the Company, no members of the Management Board or the Supervisory Board (directly or indirectly) held any Existing Shares. However, the members of the Management Board may acquire Existing Shares in the future under forward share purchase agreements (see "*21.5.2.1 Forward Share Purchase Agreements*") and/or in the course of a settlement in accordance with the resolution roadmap agreement (see "*21.5.2.2 Resolution Roadmap Agreement*") entered into by them. Save for their rights under these agreements, the members of the Management Board neither directly nor indirectly hold any conversion or option rights in respect of the Existing Shares as of the date of this Prospectus.

21.5.2.1 Forward Share Purchase Agreements

On July 12, 2017, all of the Management Board members and certain senior staff members of BAWAG P.S.K. (each a "**Purchaser**") entered into forward share purchase agreements (each an "**FSPA**") with the Cerberus Shareholders, the GoldenTree Shareholders, PSH, Cerberus Capital Management LP and GoldenTree Asset Management LP (the "**Sellers**"). The Sellers also entered into FSPAs with certain other third party investors. A total purchase price of € 17.85 million was severally paid by the Purchasers and an additional € 3 million was paid by the third party investors to the Sellers. On the closing of the FSPAs, each Purchaser paid a fixed purchase price as consideration for the conditional right to receive Existing Shares in the future (the "**FSPA Shares**"). The number of FSPA Shares to which each Purchaser will be entitled will depend on the potential appreciation of the Company's value over a threshold of € 3.05 billion going forward. If no such value appreciation above the threshold of € 3.05 billion occurs, no FSPA Shares will be deliverable and the investment of each Purchaser will be lost in its entirety. To the extent a value appreciation occurs, the Purchasers will collectively be entitled to an aggregate of 5.95% of the total value appreciation, with each Purchaser having purchased a certain percentage under its FSPA. Under the FSPAs generally, one (1) percentage point corresponds to a purchase price of € 3 million.

The number of FSPA Shares to be delivered to each Purchaser is defined in each FSPA as a percentage of the aggregate number of FSPA Shares. Such aggregate number of FSPA Shares will be determined by dividing the amount, if any, by which the value of the Company exceeds, at the time of delivery, the threshold of € 3.05 billion by the then current share price. The value appreciation relevant for determining the number of FSPA Shares deliverable to the Purchasers is capped at € 2 billion. As a result, assuming a maximum appreciated value of the Company of € 5.05 billion and a share price of € 50.5 based on an aggregate number of 100,000,000 Existing Shares, an aggregate maximum of 2,356,438 FSPA Shares will potentially be deliverable to all Purchasers collectively. Such number of Existing Shares has been deposited in escrow with an independent custodian. The maximum number of Existing Shares potentially deliverable to Mr. Abuzaakouk would be 594,060 Existing Shares, to Mr. Barth 39,604 Existing Shares, to Mr. O'Leary 376,238 Existing Shares, to Mr. Shah 475,248 Existing Shares, to Mr. Sirucic 316,832 Existing Shares and to Mr. Wise 435,644 Existing Shares.

For the purposes of determining the value appreciation of the Company, the value of the Company will, following commencement of trading of the Existing Shares, be determined by reference to the equity market capitalization, increased by dividends and other distributions to shareholders of the Company, including any amounts paid for the repurchase or redemption of Existing Shares, to the extent that the aggregate of such dividends and distributions exceeds 70% of the net income of the Company from the closing of the FSPA until delivery of the FSPA Shares.

Each Purchaser may request delivery of the FSPA Shares he is entitled to. If any FSPA Shares are deliverable to a particular Purchaser, all such FSPA Shares will be delivered to that Purchaser on the first to occur of (a) such Purchaser's request, (b) the third business day after the value of the Company reaching € 5.05 billion, and (c) the third business day after June 30, 2023. If a value appreciation of the Company occurs, any Purchaser may request and receive delivery of the FSPA Shares he is entitled to and thereby become a shareholder in the Company. It cannot be excluded that the incentive inherent in the rights under the FSPA to further increase the value of the Company may decrease or cease to exist for any Purchaser who divests his shareholding after the expiry of the relevant lock-up period. Hence, the Purchasers may be incentivized to focus more on a short-term increase of the value of the Company, including a placement of Offer Shares in the Offering at the highest price possible, than on the increase of the value in the longer term.

As FSPA Shares will automatically become deliverable if the Company's value reaches € 5.05 billion, any value appreciation in excess of € 2 billion (based on the threshold of € 3.05 billion) will not result in a further increase of the number of FSPA Shares to be delivered under the FSPAs. FSPA Shares not delivered to the Purchasers by June 30, 2023 (or, if earlier, by the time no further delivery may occur under the FSPAs) shall be returned to the Sellers.

Existing Shares delivered to a member of the Management Board under an FSPA will be subject to a lock-up agreement (see "*4.8.3 Lock-Up of the Management Board*").

21.5.2.2 Resolution Roadmap Agreement

In 2013 and 2014, certain members of BAWAG P.S.K.'s senior management including current members of the Management Board Messrs. Abuzaakouk, Shah, Sirucic and Wise, were granted share appreciation rights under individual award agreements according to a share appreciation plan initially established by PSH. In 2016, the obligations of PSH were assumed by Sacher. Under the award agreements, holders of the awards were entitled to cash payments based on the value appreciation of the shares in PSH upon the occurrence of certain events. On June 5, 2017, in view of concerns raised by the FMA and the ECB with respect to the compliance of the plan with applicable regulatory remuneration rules, Sacher served a unilateral cancellation notice with respect to all outstanding award agreements and the awards made thereunder (including any portions already vested and any related rights and claims) including to the aforementioned members of the Management Board who, in turn, reserved their rights vis-à-vis Sacher.

On July 12, 2017, Sacher, Cerberus, GoldenTree and the aforementioned members of the Management Board entered into a resolution roadmap agreement that provides for certain procedures with a view to resolve all claims arising from the cancellation notices and the reservation of rights. The agreed procedures provide for (a) a two-year period of best-efforts negotiations between Sacher and each affected member of the Management Board aiming at a mutual settlement or (b) failing such a settlement, an arbitration proceeding by a panel of three third-party experts acting under the auspices and according to the rules of the New York office of the American Arbitration Association. Any settlement or expert determination in favor of a member of the Management Board will be in the form of delivery of up to (but not exceeding) a maximum number of Existing Shares (or, under certain circumstances, proceeds from the sale of such Existing Shares). Any expert determination will be binding on the parties, with no recourse to any form of appeal or other review in the absence of fraud, bad faith or manifest error.

The aggregate maximum number of 1,377,813 Existing Shares so transferable were deposited in escrow with an independent custodian acting as escrow agent. The escrow agent will release such escrow shares only upon (a) a joint instruction of Sacher and the respective member of the Management Board following a mutual settlement or (b) the delivery of the expert decision.

Existing Shares delivered to members of the Management Board following a mutual settlement or an expert decision may be subject to a lock-up agreement (see "*4.8.3 Lock-Up of the Management Board*").

21.5.3 Conduct of Board Members

Except as disclosed below, none of the current members of the Management Board or the Supervisory Board has, at any time in the five years prior to the date of this Prospectus:

- been convicted of any offences relating to fraud;
- been associated with any bankruptcy, receivership or liquidation as a member of the administrative, management or supervisory bodies or as senior manager;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or

- been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of an issuer.

In June and August 2017, respectively, FMA imposed administrative fines against five members of the management board and four responsible representatives of BAWAG P.S.K. who held office when BAWAG P.S.K. was in breach of the Austrian Act on Consumer Payment Accounts (VZKG) obligating it to make available a functioning account switching service to its customers. The fine imposed on Mr. Anas Abuzaakouk, Mr. Stefan Barth, and Mr. Satyen Shah amounts to € 74,000 in each case. Messrs. Abuzaakouk, Barth and Shah have appealed the penal orders to the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*). The appeals are pending. See also "*13.14.4 Administrative Proceedings regarding the Austrian Act on Consumer Payments Accounts*" for further details.

During his employment at Hypo Bank International AG from April 2010 until December 2012, Mr. Stefan Barth was also delegated as supervisory board member (*Verwaltungsratsmitglied*) to Hypo Alpe Adria Bank SpA, Italy ("**HBI**"). In October 2014, Bank of Italy fined all supervisory board members, including Mr. Barth, who have been active for HBI since April 2010. Bank of Italy alleged the bank, respectively the former CEO and employees of the bank, manipulated interest calculations back in 2003, and supervisory board members did not supervise sufficiently. In addition to Mr. Barth, sixteen other supervisory board members (including the chairperson and the deputy) had been fined (in case of Mr. Barth € 106,500). HBI have appealed the decisions because of disproportion. Various expert opinions confirmed that the supervisory board members were not able to detect this kind of fraud and that no violation of duty of care existed. In the meantime, the fine has already been refunded by stated-owned Heta Asset resolution (successor of Hypo Bank International AG) to Mr. Barth.

21.5.4 Conflicts of Interest

On the date of this prospectus, the Supervisory Board of the Company comprises the same persons as the Supervisory board of BAWAG P.S.K. Although the participation in BAWAG P.S.K. is the Company's only holding, the interests of the Company and the interests of BAWAG P.S.K. may not always be fully aligned.

Other than set out below there are no arrangements or understandings with major shareholders of the Company, or with other persons, pursuant to which any member of the Company's Management Board or Supervisory Board was appointed a member of such corporate body.

The Risk and Credit Committee of BAWAG P.S.K. approved a mortgage loan in the amount of € 750,000 to Mr. Stefan Barth and his wife on November 17, 2015 at standard employee terms and conditions; as of the date of the Prospectus, approximately € 17,000 were drawn under the loan.

Mr. Pieter Korteweg, who is chairman of the Supervisory Board and the member of the Supervisory Board delegated by the Cerberus Shareholders (see also "*21.3.1 Election, Delegation, Duties and Procedures of the Supervisory Board*"), is also chairman of Cerberus Global Advisors LLC, in which role he oversees the Cerberus businesses in the Netherlands, sources transactions and provides consulting advice relating to Cerberus portfolio investments, including BAWAG Group. Furthermore, Mr. Frederick Haddad, who is the member of the Supervisory Board delegated by the GoldenTree Shareholders (see also "*21.3.1 Election, Delegation, Duties and Procedures of the Supervisory Board*"), is a partner, executive committee member and portfolio manager of GoldenTree Asset Management LP, in which role he oversees and manages certain GoldenTree portfolio investments, including BAWAG Group. The interests of the Company and BAWAG Group on the one hand and the interests of (i) the Cerberus Shareholders and Cerberus Global Advisors LLC and (ii) the GoldenTree Shareholders and GoldenTree Asset Management LP, respectively, on the other hand are not necessarily always aligned and may conflict in certain circumstances. It should be noted, however, that Supervisory Board members must not act in their own interests or in the interests of persons or enterprises with whom they have close relationship if those interests conflict with those of the enterprise or serves to attract businesses opportunities to such members that would otherwise have gone to the enterprise. For more information on the positions held by Mr. Pieter Korteweg and Mr. Frederick Haddad, respectively, outside BAWAG Group, see "*21.5.1 Activities Performed outside BAWAG Group*".

Except as described in this section and "*21.5.2.1 Forward Share Purchase Agreements*", there are, to the best knowledge of the Company, no potential conflicts of interest of any members of the Management Board or the Supervisory Board.

There are no family ties between the members of the Management Board and the Supervisory Board. Except as described in this section, neither the Company nor any of its subsidiaries has granted a loan that is still outstanding to any members of the Supervisory Board or the Management Board.

21.6 Corporate Governance

The ACGC creates a body of rules and regulations for responsible management and guidance of companies in Austria. Its objective is to create sustained and long-term value and to increase transparency for all shareholders. It is based on international standards of good corporate governance as defined in the OECD rules on corporate governance and includes relevant provisions of the Stock Corporation Act, the Stock Exchange Act as well as the Capital Markets Act. The text of the ACGC is available at http://www.corporate-governance.at in German and English. The ACGC was published by the Austrian Working Group on Corporate Governance, a group of private organizations and individuals in 2002, and was most recently amended in January 2015.

The ACGC primarily applies to Austrian listed companies that undertake to adhere to its principles. In addition, the Vienna Stock Exchange requires compliance with the ACGC under provisions applicable for companies whose shares are traded in its Prime Market.

The ACGC is based on statutory provisions of Austrian corporate, securities and capital markets law ("Legal Requirements", "**L-Rules**"). In addition, the ACGC contains rules considered to be part of common international practice, such as the principles set out in the OECD Principles of Corporate Governance and the recommendations of the European Commission. Non-compliance with these rules must be explained ("Comply or Explain", "**C-Rules**").

The ACGC also contains rules that are voluntary and do not require explanation in case of deviations ("**Recommendations**"). The principal rules and recommendations of the ACGC include:

- equal treatment of shareholders under equal circumstances;
- the management board's information and reporting duties should be determined by the supervisory board;
- remuneration for members of the management board should consider the scope of activities, responsibility and personal performance as well as the achievement of targets, the size and economic situation of the company and comprise fixed and business performance related components (based on long-term indicators); the individual remuneration for each member of the management board should be reported in the annual financial statements;
- stock option plans for members of the management board should be approved by the shareholders' meeting and be based on objective parameters defined in advance; subsequent changes to the parameters are not permitted; the number and distribution of options granted, the exercise price and the respective estimated values at the time they are issued and upon exercise shall be reported in the annual financial statements;
- conflicts of interests of members of the management board and the supervisory board should be disclosed in the annual financial statements;
- a majority of the members of the supervisory board should be independent of the company and its management and the supervisory board should define the criteria that constitute independence;
- supervisory board committees should be established, in particular a remuneration committee (for remuneration and other issues with management board members) and a nomination committee (for succession planning in the management board); the remuneration committee and the nomination committee may be identical;
- supervisory board members may not assume any functions on the boards of other enterprises that are competitors of the company;
- the number of members of the supervisory board (excluding employees' representatives) should be ten or less; supervisory board members should not sit on the supervisory boards of more than eight other listed companies (the function as a chairperson counts twice);
- annual and quarterly financial statements (drawn up according to internationally recognized accounting standards) should be published in a timely manner (within four and two months, respectively) and must remain publicly accessible for at least five years;
- communication structures should be established to meet information needs of shareholders in a timely and adequate manner, in particular by using the internet; dates essential for shareholders should be communicated sufficiently, in advance; consolidated financial statements and interim reports should be published on the company's website in German and English;
- any director's dealings should be disclosed on the company's website directly or by referring to the website of the FMA;
- the independent auditors should make regular assessments of the company's risk management; and
- an annual report regarding compliance with the ACGC should be included in the annual financial statements posted on the respective company's website.

As of the date of this Prospectus, the ACGC is not applicable to the Company. However, as it is intended for the Existing Shares to be listed in the Prime Market, the Company will undertake to adhere to the ACGC after the first day of trading of the Existing Shares on the Official Market. The Company intends to comply the first day of trading the Existing Shares in full with all L-Rules and C-Rules of the ACGC, except for the following C-Rules:

- Rule 2: The principle of "one share one vote" is not implemented as one Cerberus Shareholder as well as one GoldenTree Shareholder have each and separately been granted the right to nominate one member of the Supervisory Board of the Company for as long as the respective Cerberus Shareholder or the respective GoldenTree Shareholder, respectively, holds at least one share in the Company; such right of the respective Cerberus Shareholder and the respective GoldenTree Shareholder to nominate members of the Supervisory Board shall be repealed, in each case, once the shareholding of the Cerberus Shareholders taken as a whole or, respectively, the shareholding of the GoldenTree Shareholders taken as a whole falls below 20% of the voting rights in the Company (see "*3.3.1 Even after completion of the Offering, Cerberus and GoldenTree will be able to exercise significant influence on the Company, and their interests could come into conflict with the interests of other investors.*");
- Rule 47: The granting of loans by the Company to members of the Supervisory Board outside the scope of its ordinary business activity is not forbidden. However, such transactions falls within the scope of related party transactions in the sense of Section 28 of the Banking Act (*Organgeschäfte*), which pursuant to the rules of procedure for the Management Board and the rules of procedure for the Supervisory Board require prior approval by the Supervisory Board's Risk and Credit Committee (see "*21.3.4.4 Risk and Credit Committee*"); therefore the company believes that it has implemented a suitable procedure to monitor the granting of loans by the Company to members of the Supervisory Board.

22 VIENNA STOCK EXCHANGE

The information relating to the Vienna Stock Exchange set out below is derived from information obtained from the Vienna Stock Exchange, in particular from the website of the Vienna Stock Exchange (http://www.wienerborse.at), the Vienna Stock Exchange monthly statistics of August 2017 (http://www.wienerborse.at/prices_statistics/statistics/monthly/monatsstatistik.html) and the FMA's 2016 annual report (http://www.fma.gv.at). The website of the Vienna Stock Exchange (http://www.wienerborse.at) contains further information about the Vienna Stock Exchange as well as a range of special services, such as quotations and ad hoc information about the companies listed on the Vienna Stock Exchange. The information contained on the Vienna Stock Exchange website and in the FMA's 2016 annual report is not part of or incorporated by reference into this Prospectus.

22.1 Organization and Market Segments

General

The Vienna Stock Exchange, founded in 1771, is operated by an independent, privately owned stock corporation, Wiener Börse AG (Vienna Stock Exchange), based on a license under the Stock Exchange Act issued by the Federal Ministry of Finance. Members of the Vienna Stock Exchange include banks, foreign investment firms and other firms trading in securities, derivatives and money market instruments, registered either within or outside of the EEA. In addition to the securities exchange, the Vienna Stock Exchange also operates a commodities exchange.

The Vienna Stock Exchange is supervised by the FMA. As the market and stock exchange supervisory authority, the FMA is responsible, in particular, for the supervision of the reporting requirements for reportable instruments in accordance with the Austrian Securities Supervision Act (*Wertpapieraufsichtsgesetz 2007*, the "**Securities Supervision Act**") the supervision of market participants and the clarification and investigation of infringements against the ban on insider trading and the ban on market manipulation (to the extent such infringements do not fall within the jurisdiction of the Austrian criminal courts), the monitoring of securities analyses concerning the issue and dissemination of recommendations in Austria, the regularity and fairness of securities trading, the clarification and investigation of price manipulation, the stock exchange supervision in compliance with the Stock Exchange Act and the monitoring of issuers and shareholders with respect to their duties of publication.

The Markets of the Vienna Stock Exchange

According to the Stock Exchange Act currently in force and effect, for listing purposes the Austrian securities market consists of two statutory markets: the **Official Market** and the second regulated market (*Geregelter Freiverkehr*; the "**Second Regulated Market**"). As of January 3, 2018, this will change as the Second Regulated Market will cease to exist. Securities listed in the Second Regulated Market immediately prior to January 3, 2018, will automatically be listed on the Official Market as of January 3, 2018. The Official Market and the Second Regulated Market have been recognized as "regulated markets" pursuant to Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC as amended ("**MiFID"**). In December 2004, the U.S. Securities Exchange Commission granted the Vienna Stock Exchange the status of a "Designated Offshore Securities Market" in accordance with the Securities Act.

As of August 31, 2017, shares of 66 companies have been listed on the Official Market and Second Regulated Market, the two most important (regulated) markets of the Vienna Stock Exchange. As of August 31, 2017, the market capitalization of all companies listed on the Official Market and Second Regulated Market amounted to approximately € 136.9 billion (Source: Vienna Stock Exchange, monthly statistics of August 2017).

The unregulated third market (the "**Third Market**") that existed prior to the Securities Supervision Act coming into force is operated by the Vienna Stock Exchange since November 1, 2007, in the form of a multilateral trading facility within the meaning of the Securities Supervision Act and the MiFID. A multilateral trading facility is not a regulated market under the Stock Exchange Act and the MiFID. It is a trading facility operated on the basis of a license from the FMA in accordance with the provisions of the Securities Supervision Act. However, on the basis of a special FMA approval, the operator of a regulated market, such as the Vienna Stock Exchange, is entitled to also operate a multilateral trading facility. Presently, the Third Market is operated by Wiener Börse AG, which stipulated the "Terms and Conditions for Operation of the Third Market" applicable to all participants of the Third Market. The criminal offense of "misuse of insider information" and the administrative offense of "market manipulation" are also applicable to multilateral trading facilities.

By meeting the statutory criteria, securities are admitted to listing on the Vienna Stock Exchange and are divided into various trading segments. To be traded in a specific segment, certain non-statutory criteria must be met by the issuer of the securities, in addition to the statutory listing criteria as provided by the Stock Exchange Act. Compliance with these additional listing criteria is undertaken on a contractual basis between the relevant issuer and the Vienna Stock Exchange. The equity market is divided into the segments "Prime Market", "Mid-Market", "Standard Market" and "Global Market".

The "Prime Market", where the Existing Shares are expected to be traded following completion of the Offering, represents the highest ranking market segment of the Vienna Stock Exchange and is comprised of shares in companies that agree to fulfill more stringent reporting, quality and disclosure requirements set out in the prime market regulation, a private law contract between the relevant issuer and Wiener Börse AG, apart from meeting the legal criteria for the admission to listing on the Official Market or Second Regulated Market of the Vienna Stock Exchange as set out in the Stock Exchange Act. The admission criteria and ongoing obligations are specified in "the prime market rules" which can be retrieved from the website of the Vienna Stock Exchange (currently under https://www.wienerborse.at/handel/marktsegmentierung/equity-market-at/). To provide additional liquidity, stocks traded in the Prime Market must be serviced by a trading participant who assumes the function of a specialist and has agreed to enter firm quotes into the trading system on a permanent basis. The trading platform for the Prime Market is the Xetra trading system with the trading procedure "continuous trading" in conjunction with several auctions (opening auction, intraday auction, closing auction). In the Prime Market, additional liquidity providers other than the designated specialists are encouraged to act as market makers in stocks already serviced by a specialist in order to increase the liquidity of the stock. The specialists' and the market makers' commitments must meet certain minimum requirements set up by the Vienna Stock Exchange.

The segments "Standard Market Continuous" and "Standard Market Auction" contain all stocks admitted to listing on the Official Market or the Second Regulated Market that do not meet the criteria for the Prime Market or for the Mid Market. The segment "Mid Market" contains stocks admitted to listing on the Official Market or the Second Regulated Market or the Third Market that do not meet the criteria for trading in the Prime Market segment but meet certain non-statutory criteria set out in the mid-market regulation. Shares listed on the "Standard Market" segment are traded continuously (Standard Market Continuous) or only once a day (Standard Market Auction). Shares listed on the "Mid Market" segment are traded either continuously (mid Market Continuous) or only once a day (Mid Market Auction).

The Austrian Traded Index

The Austrian Traded Index ("**ATX**") is an index that contains shares listed in the Prime Market and is weighted according to the free float market capitalization in the companies contained therein. The ATX is designed as the underlying reference for Austrian stock trading, close to the market and transparent, and serves as a reference index for futures and options. The ATX consists of the most liquid and the highest capitalized stocks, based on free float, traded on the Prime Market. As of August 31, 2017, out of the 39 companies listed on the Prime Market, only 20 companies are included in the ATX (Source: Vienna Stock Exchange). The ATX tracks the price trends of the most actively traded (and, thus, most liquid) and highly capitalized stocks in terms of free float on the Prime Market. This index is also available as a total return ('ATX TR') or net total return index ('ATX NTR'). The base date of the ATX is January 2, 1991 and ATX is denominated in euro. The ATX is calculated, disseminated and licensed by the Vienna Stock Exchange on a real-time basis. The "ATX Prime" index contains all shares presently traded in the Prime Market segment.

Trading Volume

In 2016, the aggregate trading volume of the domestic and foreign shares listed on the Official Market and the Second Regulated Market of the Vienna Stock Exchange amounted to about € 55.9 billion (2015: € 58.4 billion, 2014: € 47.7 billion). As of August 31, 2017, a total of 62 companies were listed on the Prime Market, Standard Market Continuous and Standard Market Auction segments. Austrian companies comprised the large majority of these companies. As of August 31, 2017, the total market capitalization of all Austrian companies listed on the Prime Market, Standard Market Continuous and Standard Market Auction segments amounted to about € 116 billion as compared to € 93 billion as of December 31, 2016, € 84.4 billion as of December 31, 2015 and € 75.9 billion as of December 31, 2014 (Source: Vienna Stock Ex-change, monthly statistics of August 2017 and December 2016, yearly statistics 2015).

22.2 Trading and Settlement

Officially listed securities are traded both on and outside of the Vienna Stock Exchange.

Shares and other equity securities listed on the Vienna Stock Exchange are quoted in euro per share. The electronic trading system used by the Vienna Stock Exchange is Xetra® (Exchange Electronic Trading), the electronic trading system of Deutsche Börse AG. By this electronic system, all market participants have the same access to trading on the Vienna Stock Exchange regardless of their location. The settlement system uses automated netting procedures and daily mark-to-market evaluation of collateral requirements to further reduce transfer costs.

The settlement of transactions concluded on the Vienna Stock Exchange takes place outside the stock exchange. The Vienna Stock Exchange has appointed CCP Austria Abwicklungsstelle für Börsegeschäfte GmbH ("**CCP Austria**") to act as clearing agency pursuant to Section 26 para. 3 Stock Exchange Act and to ensure the clearing and settlement of eligible exchange transactions. CCP Austria acts as the responsible central counterparty for the clearing and risk management of all trades concluded on the Vienna Stock Exchange and assumes the fulfillment and default risk involved with the clearing and settlement of securities and derivatives transactions. These transactions are carried out T+2 on a delivery versus payment basis, with OeKB CSD acting on behalf of CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH as the central custodian and settlement bank. In case of non-delivery, the default of delivery mechanisms set out in the Rules for the Clearing and Settlement of Exchange Trades by CCP Austria (separation procedure, covering procedure and cash settlement) apply. Settlement terms of OTC transactions depend on the parties' agreement.

Trading can be suspended by the Vienna Stock Exchange if orderly stock exchange trading is temporarily endangered or if its suspension is necessary in order to protect the public interest. The electronic system provides for automatic volatility interruptions and market order interruptions during auctions and for automatic volatility interruptions during continuous trading.

22.3 Supervision of Market Participants

As the market and stock exchange supervisory authority, the FMA is responsible, in particular, for supervision of the reporting requirements for reportable instruments in accordance with the Securities Supervision Act, the supervision of market participants and the clarification and investigation of infringements against the ban on insider trading and the ban on market manipulation (to the extent such infringements do not fall within the jurisdiction of the Austrian criminal courts), the monitoring of securities analyses concerning the issue and dissemination of recommendations in Austria, the regularity and fairness of securities trading, the clarification and investigation of price manipulation, stock exchange supervision in compliance with the Stock Exchange Act and the monitoring of issuers and shareholders with respect to their duties of publication, in particular, ad hoc disclosure obligations. The FMA is also responsible for the licensing of multilateral trading facilities, including the approval thereof, for stock exchange companies.

The FMA is further responsible for supervising the lawfulness of resolutions adopted by the executive bodies of the stock exchange operator, i.e., the Vienna Stock Exchange. For that purpose, it makes use of the so-called stock exchange commissioners (*Börsekommissäre*) pursuant to Section 46 Stock Exchange Act. The stock exchange commissioner and his deputies are appointed by the Minister of Finance, but act on behalf of the FMA and are bound by the instructions of the FMA, as the competent supervisory authority. The stock exchange commissioners (at present one stock exchange commissioner and two deputies) are to be invited to all shareholders' meetings, supervisory board meetings, all meetings of supervisory board committees with decision making power and meetings of the management board which decide on the admission of a member of the stock exchange, the suspension of stock exchange membership, the exclusion of stock exchange membership or the admission or withdrawal of admission to listing of negotiable instruments to the different types of trading. The stock exchange commissioners have the right to speak at any time if so requested. All minutes of the meetings of the bodies of the stock exchange operating company to which the stock exchange commissioners are invited shall be sent to the stock exchange commissioners without delay. The stock exchange commissioners and their deputies have the right to visit trading sessions any time they wish. The stock exchange commissioner reviews all resolutions and decisions of the Vienna Stock Exchange and is entitled to object to any resolutions and decisions he considers to be in violation of applicable law. Any such objection by the stock exchange commissioner postpones the date as of which the resolution shall take effect until the FMA reaches a decision on the matter.

23 REGULATION OF THE AUSTRIAN SECURITIES MARKET

The summary of Austrian securities markets regulation set forth below is for general information only and describes certain significant issues of Austrian securities law and regulation. The summary does not purport to be a comprehensive description of all of the topics discussed below.

23.1 General

The Austrian securities markets are regulated by a number of laws and regulations. The most important laws and regulations are the Stock Exchange Act, the Capital Markets Act, the directly applicable MAR or the Issuers' Compliance Regulation (*Emittenten-Compliance-Verordnung;* the "**ECV**") issued by the FMA. In addition, the Takeover Act applies to takeovers of shares of listed companies.

In the context of implementing MiFID II into Austrian law (see also "*17.11.3 New Rules on Markets in Financial Instruments*"), the Stock Exchange Act will be revised completely with effect as of January 3, 2018. Basically, the statements below are made on the basis of the current legal situation. However, changes to the current legal situation caused by this revision of the Stock Exchange Act taking effect on January 3, 2018, are highlighted, if material.

23.2 Notification and Disclosure of Shareholdings

If natural persons or legal entities (irrespective of whether domestic or foreign), directly or indirectly, acquire or sell shares in a stock corporation for which Austria is the home member state and the shares of which are listed on the Official Market or the Second Regulated Market of the Vienna Stock Exchange, then these persons or entities are obliged to notify the FMA, the Vienna Stock Exchange as well as the Company within two trading days after the acquisition or disposal of a major shareholding, provided that the proportion of the voting rights held reaches, exceeds or falls below a threshold of 4%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 75% or 90%, respectively, as a consequence of the acquisition or disposal. The articles of association of a listed company can lower the reporting threshold to 3%. However, the Articles of Association of the Company do not provide for such reduced threshold. The notification period commences when the shareholder of a major shareholding gains, or should have gained, knowledge of the acquisition or sale.

The notification requirements of the Stock Exchange Act also apply to persons entitled to exercise voting rights in the Company in the following cases:

- voting rights of the other parties to a share pooling agreement with that person for the purpose of adopting a lasting common policy towards the management of the Company by voting shares in concert;
- voting rights attaching to shares that such person pledged as collateral, provided, that such person may exercise voting rights without the express instruction of the pledgee or can influence the pledgee's voting rights;
- voting rights attaching to shares that such person has a usufruct interest (*Fruchtgenussrecht*) in;
- voting rights exercised by an undertaking in which that person holds a direct or indirect controlling interest (as defined in the Takeover Act) or attributed to that person pursuant to the Takeover Act; and
- voting rights which may be exercised by that person without being shareholder or as proxy at its own discretion in the absence of specific instructions from the shareholders.

In addition, the disclosure requirements also apply to any person who directly or indirectly reaches, exceeds or falls below the above thresholds by holding certain financial or comparable instruments such as option rights, convertible bonds, futures or contracts for difference or certain swaps. In each case, rules on the aggregation of various positions in voting rights and financial instruments need to be observed.

The above thresholds are calculated based on all shares carrying voting rights even if the exercise thereof is suspended. The Company is also obligated to publish any changes in its share capital and the total number of voting rights at the end of the calendar month in which the respective change occurred. Publications must be made through one of the EU-wide electronic information dissemination systems of Reuters, Bloomberg or Dow Jones Newswire (Section 11 of the FMA's Disclosure and Reporting Regulation – *Veröffentlichungs- und Meldeverordnung der FMA*).

Notification by the shareholder to the Company needs to include, *inter alia*, the number of voting rights held after the acquisition or disposal of shares, the chain of controlled undertakings through which voting rights are effectively exercised, the date on which the threshold was reached or exceeded as well as the identity of the shareholder and proxy. In case of financial instruments, the type of financial instrument as well as the expiration date/maturity, the exercise/conversion period/date as well as the number of shares and of voting rights that may be acquired if the instrument is exercised/converted must be disclosed.

The Company is required to disclose all information notified by a shareholder having reached or exceeded the above thresholds immediately, but no later than two trading days of being notified thereof.

In case the disclosure requirements are not complied with, voting rights may be temporarily suspended and administrative penalties may be imposed. If the disclosure requirements are violated by a natural person, such penalties can amount to up to the higher of (i) twice the benefit obtained or (ii) an amount of € 2,000,000. If the disclosure requirements are violated by a legal person, such penalties can amount to up to the higher of (i) 5% of the total annual turnover, (ii) twice the benefit obtained or (iii) an amount of € 10,000,000.

If the Company repurchases or disposes of its own shares it must publish the proportion of its own shares equaling, exceeding or falling below 5% or 10% of the voting rights without undue delay, but no later than two trading days of the purchase or disposal.

23.3 Managers' Transactions (Directors' Dealings)

Persons discharging managerial responsibilities (in particular members of the Management Board or Supervisory Board) of the Company must notify the Company and the FMA without undue delay, but not later than three business days after the date of existence of any transactions conducted on their own account relating to the Company's financial instruments such as shares, debt instruments, derivatives or other financial instruments linked to the Company's financial instruments traded on regulated markets, multilateral and organized trading facilities. This obligation is only applicable if the aggregate value of such transactions (including transactions of persons related to those with managerial responsibilities) exceeds € 5,000 per calendar year. The Company shall ensure that such information is made public promptly and no later than three business days after the transaction in a manner which enables fast access to such information on a non-discriminatory basis. The form, content and type of disclosure of directors' dealings notifications are regulated by MAR and Commission implementing regulation (EU) 2016/523.

The same rules apply to persons who have a close relationship with persons undertaking managerial responsibilities, for example spouses, dependent children as well as any other family members who have lived in the same household for at least one year. Persons who have such close relationships are, in addition, legal persons, trusts or partnerships, the managerial responsibilities of which are discharged by a person discharging managerial responsibilities or by a person referred to in the previous sentence, or which is directly or indirectly controlled by such a person, or which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

Violations of directors' dealings constitute an administrative offence and may result in an administrative penalty imposed by the FMA in an amount of up to the three times the obtained benefit (including avoided losses) from the transaction or an amount of up to € 500,000 (€ 1,000,000 in case of legal persons). In addition, the FMA may declare any pecuniary advantage attained by such transaction or trade order forfeited.

23.4 Insider Rules and Ad Hoc Publicity

Insider Rules

The MAR and the Stock Exchange Act prohibit the abuse of inside information.

Inside information is defined in the MAR as information of precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers, or one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments, because a reasonable investor would likely use such information as the basis for his/her investment decision.

Information shall deemed to be of a precise nature if it indicates a set of circumstances which exists or which may reasonably be expected to come into existence, or an event which has occurred or which may reasonably be expected to occur, where it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments or the related derivative financial instruments.

An intermediate step in a protracted process shall be deemed to be inside information if, by itself, it satisfies the criteria of inside information.

According to Section 48m para. 4 Stock Exchange Act (Section 163 Stock Exchange Act with the revision of the Stock Exchange Act taking effect on January 3, 2018), an insider is any person who possesses inside information as a result of either (i) being a member of the administrative, management or supervisory body of the issuer; (ii) having a holding in the issuer, (iii) having access to the information through the practice of an employment or profession or performance of duties, or (iv) having obtained the information through criminal acts. If an insider is a legal rather than a natural person those persons who participate in the execution of the relevant transaction on behalf of such legal person are deemed insiders. Furthermore, any person who does not qualify as an insider will nevertheless be sanctioned under insider trading rules if such person knows or, but for gross negligence, should have known, that such information qualifies as inside information and makes use of such information in a penalized way.

Any person who possesses inside information and uses or intentionally attempts to use that information by acquiring or disposing of, for its own account or for the account of a third party, directly or indirectly, financial instruments to which that information relates, commits insider dealing. Using inside information by cancelling or amending an order for a financial instrument to which the information relates where the order was placed before the person concerned possessed the inside information, shall also be considered to be insider dealing. Furthermore, a person must not recommend, on the basis of inside information, that another person acquires or disposes of financial instruments to which that information relates, or induce that person to make such a cancellation or amendment or to unlawfully disclose inside information. A violation of the prohibition of insider dealing and unlawful disclosure of inside information is – depending on the circumstances - subject to (a) an administrative penalty of up to the higher of (i) three times the benefit (including losses avoided) obtained from the transaction or (ii) an amount of up to € 5,000,000 or (b) a criminal offence of up to five years' imprisonment. Legal persons using inside information in the aforementioned manner are subject to an administrative penalty of up to the higher of (i) 15% of the total annual turnover or (ii) three times the benefit (including losses avoided) obtained or (iii) an amount of up to € 15,000,000. In addition, the FMA may declare any pecuniary advantage attained by such transaction or trade order forfeited.

Market operators and investment firms that operate a trading venue shall establish and maintain effective arrangements, systems and procedures aimed at preventing and detecting insider dealing, market manipulation and attempted insider dealing and market manipulation.

The MAR also requires the Company to draw up a list of all persons who have access to inside information and who are working for it under a contract of employment, or otherwise performing tasks through which they have access to inside information, such as advisers, accountants or credit rating agencies. The Company is required to regularly update this list and submit it to the FMA, whenever requested.

Pursuant to the Stock Exchange Act, the Company is inter alia obligated to:

- inform its employees and other persons providing services to it about the prohibition on the abuse of inside information;
- issue internal directives for the communication of information within the Company and monitor compliance; and
- take organizational measures to prevent the abuse of inside information or its disclosure to third parties.

Evidence of adherence to these obligations, which must be provided by delivering the Company's internal compliance directive, is a prerequisite for admission to the Official Market and the Second Regulated Market. The ECV regulates such measures in further detail (e.g., permanent and ad-hoc confidentiality areas and blocking periods regarding trading in financial instruments). Also, it does not only cover inside information as defined above, but expands its scope of application to so called compliance-relevant information ("**Compliance-relevant Information**"). Compliance-relevant Information is defined as inside information or any other confidential and price-sensitive information which may not yet qualify as inside information. Confidential and price-sensitive information comprises all information not publicly known which would, if it were known to a reasonable investor who regularly trades related financial instrument on the respective market, be considered as relevant by such investor when making his/her investment decision.

As the Existing Shares are expected to be admitted to trading on the Official Market, the ECV for instance will require the Company (i) to issue a compliance directive (*Compliance-Richtlinie*) and (ii) to provide an annual operational report (*Tätigkeitsbericht*), as defined in the ECV, within five months of the end of the Company's financial year to its supervisory board as well as to the FMA. In addition to maintaining insider lists in accordance with the MAR, the Company will further be required to establish a register of persons working for them who have access to Compliance-relevant Information, whether on a regular or on an occasional basis. The Company will be required to regularly update this register and submit it to the FMA, whenever requested.

Ad hoc Information

Furthermore, as the Existing Shares will be admitted to trading on the Official Market, the MAR will require the Company to disclose to the public without delay (*unverzüglich*) any inside information that directly concerns it on a non-discriminatory basis (so-called ad-hoc announcement). Material changes to published inside information must also be published and identified as such. Publication must be made through an EU-wide electronic information dissemination system. The Company may delay the public disclosure of inside information in order not to prejudice its legitimate interests, provided that (i) such delay of disclosure would not be likely to mislead the public and (ii) the Company is able to ensure confidentiality of such information. The Company is obligated to inform the FMA immediately after having published an ad-hoc announcement if it had delayed disclosure of the information.

23.5 Market Manipulation

Market manipulation, as defined in the MAR, refers to (i) entering into a transaction, placing an order to trade or any other behavior which, (a) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument a related spot commodity contract or an auctioned product based on emission allowances, or (b) secures, or is likely to secure, the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances at an abnormal or artificial level (unless the person entering into a transaction, placing an order to trade or engaging in any other behavior establishes that such transaction, order or behavior have been carried out for legitimate reasons, and conform with an accepted market practice as established in accordance with MAR), and (ii) entering into a transaction, placing an order to trade or any other activity or behavior which affects or is likely to affect the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances, which employs a fictitious device or any other form of deception or contrivance, and (iii) disseminating information through the media, including the internet, or by any other means, which gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument a related spot commodity contract or an auctioned product based on emission allowances, or secures, or is likely to secure, the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances at an abnormal or artificial level (including the dissemination of rumors, where the person who made the dissemination knew, or ought to have known, that the information was false or misleading), and (iv) transmitting false or misleading information or providing false or misleading inputs in relation to a benchmark where the person who made the transmission or provided the input knew or ought to have known that it was false or misleading, or any other behavior which manipulates the calculation of a benchmark.

Market manipulation and intentionally attempted market manipulation is, depending on the circumstances, subject to a) an administrative penalty of up to the higher of (i) to three times the benefit (including losses avoided) obtained from the transaction or (ii) an amount of up to € 5,000,000, or (b) a criminal penalty of up to five years' imprisonment. Legal persons committing market manipulation in the aforementioned manner are subject to an administrative penalty of up to the higher of (i) three times the benefit (including losses avoided) obtained, (ii) 15% of the total annual turnover or (iii) an amount of up to € 15,000,000. In addition, the FMA may declare any pecuniary advantage attained by such transaction or trade order forfeited.

23.6 Takeover Act

The Takeover Act primarily applies to public offers for the acquisition of shares of Austrian stock companies which are admitted to trading on the Official Market or the Second Regulated Market of the Vienna Stock Exchange.

The Takeover Act distinguishes between voluntary public takeover offers (*freiwillige öffentliche Übernahmeangebote*), mandatory offers (*Pflichtangebote*) and voluntary offers to acquire control (f*reiwillige Angebote zur Kontrollerlangung*). A mandatory offer must be made when a shareholder or a group of shareholders or any third person or persons acting in concert have gained a direct or indirect controlling interest over a listed company. A direct controlling interest is presumed in the case of a direct participation of more than 30% of the voting rights of the target company. An indirect controlling interest is presumed if a participation of more than 30% of the voting rights of the target company is held (i) through a listed stock corporation, which is directly controlled by the bidder or (ii) through another legal entity over which the bidder has a controlling influence. A participation of more than 30% of the voting rights is not deemed a controlling interest if it cannot convey control over a listed company or if the shareholder actually exercising control does not change from an economic point of view. This is the case if, for instance, another shareholder or group of shareholders holds at least the same percentage of voting rights as the bidder, if the shares do not convey the majority of votes due to the presence of other shareholders in past shareholders' meetings or if the articles of association provide for a maximum voting right (*Höchststimmrecht*) of up to 30%. An issuer may lower this 30% threshold in its articles of association. However, the Company has not provided for a lower threshold in its Articles of Association.

The Takeover Act provides for a "safe harbor" pursuant to which the acquisitions of voting rights not exceeding 30% cannot trigger a mandatory bid.

Under the "creeping-in" rule, the extension of an existing controlling interest shall also trigger a mandatory offer, if a person with a controlling interest who does not have a majority of the voting rights of a listed company acquires an additional 2% or more of the voting rights within a period of twelve months. The "creeping-in" rule, accordingly, only applies to a shareholding between 30% and 50%.

In case of a "passive" acquisition of control, there is no requirement to launch a mandatory bid if the acquirer of a controlling interest could not reasonably expect the acquisition of control at the time of acquiring the participation. The voting rights exceeding a participation of 26% are suspended. The Austrian Takeover Commission (*Übernahmekommission*, "**ATC**") may, upon application, impose conditions on the bidder instead of suspending voting rights. No relief from suspension of voting rights exceeding 30% of the share capital can be granted.

As a rule, the price for a voluntary public takeover offer can be freely determined. The offer price for a mandatory offer or a voluntary offer to acquire control must be equal to at least the volume-weighted average share price during the last six months before the day when the intention to make an offer is published and must be equal to at least the highest consideration paid or agreed to be paid by the bidder (or parties acting in concert) during the last twelve months before filing the offer with the ATC. In certain cases, an adequate price may apply and in certain other cases where there is a very small amount of trading in the shares the average share price may not be relevant (as determined by the Takeover Commission in 2013).

The articles of association of a stock corporation can, inter alia, stipulate that during the takeover process certain restrictions on transfer and voting rights with respect to shares of the target company are not applicable ("break through"). The acquirer of an interest of at least 75% of the share capital of a stock corporation can call a shareholders' meeting within six months of a takeover process. If, in such a shareholders' meeting, a vote is taken on changes to the articles of association (in particular, the abolition of transfer restrictions, voting right restrictions and delegation rights) or the recall or election of members of the supervisory board, restrictions on voting rights do not apply ("breakthrough-rule"). The Company's Articles of Association do not provide for such rules due to the lack of restrictions on the transfer of shares or on voting rights.

The Takeover Act requires that the bidder prepares offer documents to be examined by an independent expert, either a qualified auditor or a bank, before being filed with the ATC and the target company. The management board and the supervisory board of the target company must issue a statement on the offer, which is also subject to a mandatory examination by an independent expert. The works council also has the right to submit a public written statement on the takeover offer. Any higher offer or other competitive offer must follow the same rules. From publication of a bidder's intention to submit a public offer, the management board and the supervisory board of the target company generally may not undertake measures to jeopardize the offer. The bidder and the parties acting in concert must refrain from selling any shares in the target company and from purchasing target shares for a higher consideration than offered in the offer. Violation of any legal provision may result in the obligation to pay the difference between the price such shares have been purchased and/or sold at and the price offered in the bid to all shareholders who have accepted such bid, in the suspension of voting rights and in fines imposed by the ATC.

The time allowed for the acceptance of a bid is no less than two weeks and no more than ten weeks from the date of the publication of the offer document. In certain scenarios, including a mandatory bid, there is an additional acceptance period of three months following the publication of the result of the public bid.

The ATC controls the application of the Takeover Act and has the power to fine any party that commits infringements of the Takeover Act. In addition to other civil and administrative sanctions, violations of provisions of the Takeover Act can result in the suspension of voting rights of the violator's shares and, in the case of serious violations, suspension of other shareholder rights. The ATC may institute proceedings ex officio and is not subject to oversight by any other regulatory authority.

23.7 Squeeze-out of Minority Shareholders

Pursuant to Squeeze-out Act, a majority shareholder holding no less than 90% of the entire (voting and non-voting) share capital (reduced by treasury shares, if any) of a corporation may squeeze out the remaining shareholders at an equitable price. The squeeze-out right is general and is not limited to a preceding takeover offer. The minority shareholders are not entitled to block the squeeze-out but have the right of separate judicial review of the fairness of the compensation paid for their minority stake. If a squeeze-out follows a takeover offer, the consideration offered in the takeover bid is presumed to be fair where, through the acceptance of the offer, the bidder has acquired shares representing no less than 90% of the share capital entitled to vote in the target company.

23.8 Delisting

As of the date of this prospectus, Austrian law does not provide for a regular procedure for delisting of a company listed on the Official Market of the Vienna Stock Exchange (where the Company will be listed). However, according to the majority of the views expressed in legal literature, a voluntary delisting of a company listed in the Official Market should nevertheless be admissible via a corporate restructuring (so-called "cold-delisting"); e.g. by way of a squeeze out of all remaining shareholders (see "*23.7 Squeeze-out of Minority Shareholders*", a merger of the issuer as transferring company into an unlisted company as receiving company, or a change of the issuer's legal form to a limited liability company or a partnership and the like). Also, a delisting would have to occur as a consequence of permanent breach of obligations imposed on the issuer, as this would lead to an expulsion from the Vienna Stock Exchange.

However, the applicable legal situation will change with the revision of the Stock Exchange Act taking effect as of January 3, 2018, which will include a formal procedure for the delisting of companies listed in the Official Market (where the Company will be listed).

Such procedure will include as pre-requisites *inter alia* the following:

- the shares must have been listed for at least three years;
- a shareholder's resolution with a three-fourth majority to delist the company;
- a mandatory takeover offer pursuant to the Takeover Act (see "*23.6 Takeover Act*") must have been launched within six months prior to the filing of the application for delisting and, thereby, granting the shareholders of the listed company the option to sell their shares at a price that meets the requirements of the Takeover Act as outlined below.

Also, to prevent circumvention of this new procedure by, *e.g.*, causing a "cold delisting", the Stock Corporation Act, the Austrian Demerger Act (*Spaltungsgesetz*) and the Austrian EU-Merger Act (*EU-Verschmelzungsgesetz*) will be amended also with effect as of January 3, 2018, to implement for various restructuring measures (*e.g.*, the conversion of a listed stock corporation into a limited liability company that cannot be listed) the requirement of a mandatory takeover offer pursuant to the Takeover Act after the required shareholders' resolution to delist was adopted.

In the course of such mandatory takeover offers the offer price must be at least the higher of (i) any cash compensation granted by the bidder or parties acting in concert with the bidder for the target company's equity securities over the past twelve months prior to notification of the offer, or (ii) the volume weighted average price of the respective security over the six months preceding the day on which the bidder announces its intention to launch an offer or (iii) the volume weighted average price of the respective security over the five trading days preceding the day on which the bidder announces its intention to launch an offer. If the minimum price calculated as outlined above obviously is below the actual value of the company, the offer price must be set adequately. Thus, with the revision of the Stock Exchange Act and the amendment of the other legislation outlined above, shareholders in a company listed in the Official Market will in any event be granted adequate cash exit rights in the event of a delisting.

23.9 Short Selling

On March 24, 2012, Regulation (EU) No 236/2012 of the European Parliament and the Council of March 14, 2012 on short selling and certain aspects of Credit Default Swaps was published. The short selling regulation applies from November 1, 2012. According to the regulation, short selling may (subject to certain exemptions) be temporarily banned or restricted either by national regulators or by the European Securities and Market Authority. It provides a coordinated European framework on short selling that aims at greater transparency, increases the powers of regulators and addresses the specific risks of naked short selling by requiring that in order to enter a short sale, an investor must have borrowed the instruments concerned, entered into an agreement to borrow them, or have an arrangement with a third party to locate and reserve them for lending so that they are delivered by the settlement date.

24 TAXATION

24.1 Austrian Taxation Considerations

This section on taxation contains a brief summary of the Company's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the Offer Shares in Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential shareholders. The following comments are rather of a general nature and included herein solely for information purposes. These comments are not intended to be, nor should they be construed to be, legal or tax advice. It is based on the currently valid tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential purchasers of the Offer Shares consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Offer Shares.

In this summary, Austrian legal concepts are expressed in English terms and not in the original German terms. The Austrian legal concepts concerned may not be identical to the concepts expressed in English terms.

The Company does not assume any responsibility for the withholding of tax levied on income or capital gains from the Existing Shares at source.

The requirements for classifying a payment as a dividend

For tax law purposes, whether a profit distribution of an Austrian corporation may be treated as a dividend depends on the amount of the distributing company's "internal finance" (*Innenfinanzierung*) as well as on the amount of its capital contributions (*Einlagenstand*). To the extent the amount of the distributing company's "internal finance" is positive, the profit distribution may be treated as a dividend for tax purposes unless the distributing company has also a positive capital contribution account and has opted for a tax treatment of the distribution as redemption of capital contributions (*Einlagenrückzahlung*). If the amount of the distributing company's "internal finance" is negative, the profit distribution has to be treated as redemption of capital contributions (*Einlagenrückzahlung*) for tax purposes to the extent the distributing company's capital contributions account is positive. If neither the amount of the distributing company's "internal finance" nor its capital contributions account is positive, the profit distribution is treated as a dividend.

If a profit distribution is treated as redemption of capital contributions, it is deemed to be a disposal of the participation that reduces the shareholder's book value or acquisition costs of the Existing Shares. To the extent the amount of the profit distribution exceeds the book value or acquisition costs of the Existing Shares, it leads to a capital gain.

24.1.1 General Remarks

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of effective management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability, Austria's right to tax may be restricted by double taxation treaties.

24.1.2 Income Tax and Corporate Income Tax

24.1.2.1 Taxation of Dividends

Dividends distributed by an Austrian corporation are generally subject to a withholding tax (*Kapitalertragsteuer*), levied at a rate of 27.5%. This tax is withheld by the company paying the dividend. The company, or the bank paying out the dividend on the company's behalf, is required to issue a certificate to the shareholders showing the gross dividend, the tax withheld, the date of payment and the period in respect of which the dividend is payable, and also the tax office to which the tax withheld was remitted.

For holders of the Offer Shares who are subject to unlimited income tax liability, this 27.5% withholding tax is a final tax (*Endbesteuerung*), i.e., no income tax is levied over and above the amount withheld. Furthermore, the dividends do not have to be included in the holder's income tax return. However, upon application, the option exists to tax dividend income subject to the tax rate of 27.5% (together with his other income subject to a special tax rate for income from financial assets) at the progressive income tax rate which might be lower than 27.5%. Expenses incurred by the holder in connection with the Offer Shares (including interest expenses) may not be deducted for income tax purposes.

For holders of the Offer Shares who are subject to unlimited corporate income tax liability, dividends derived from a participation in an Austrian corporation are exempt from corporate income tax. This is also the case for Offer Shares that are attributable to an Austrian permanent establishment (*Betriebsstätte*) of a corporation resident in an EU member state, if it has one of the legal forms listed in the EU-Parent Subsidiary Directive (2011/96/EC). Any tax withheld is credited against the corporate income tax assessed; any excess amount may be reclaimed. No withholding tax has to be deducted from the dividends where the corporate shareholder holds at least 10% of the share capital of the Company. Apart from interest expenses connected with the acquisition of shares in non-related companies, no expenses incurred by the holder in connection with the Offer Shares may be deducted for corporate income tax purposes.

Private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz* Federal Law Gazette No. 694/1993, the "**Austrian Private Foundations Act**") are subject to special provisions that exempt dividends from corporate income tax. Any tax withheld is credited against the corporate income tax assessed; excess amounts may be reclaimed.

For holders of the Offer Shares who are subject to limited (corporate) income tax liability, dividends distributed by the Company are generally also subject to a 27.5% withholding tax, subject however to applicable double taxation treaties.

Many of these treaties generally reduce Austria's right to tax, in which case any balance will be refunded by the Austrian tax authorities upon request. In this respect, a holder of the Offer Shares will generally have to provide a certificate of residence issued by the tax authorities of its country of residence. Claims for refund of the Austrian withholding tax can be made by using the forms ZS-RD 1 and ZS-RD 1A (in German) or ZS-RE 1 and ZS-RE 1A (in English). The application forms and instructions may be obtained from the website operated by the Austrian Ministry of Finance (http://www.bmf.gv.at) (information on the website of the Austrian Ministry of Finance is not incorporated by reference into this Prospectus). Tax treaty relief from Austrian withholding tax at source may only be granted by the distributing company provided that the requirements of the Austrian relief at source rules (*DBA-Entlastungsverordnung*) are met. However, the company is under no obligation to grant tax treaty relief at source.

For non-resident corporate shareholders, there are other rules as well that have to be kept in mind: Dividends paid to a company qualifying under the EU Parent Subsidiary Directive (Council Directive 2011/96/EU as amended) ("**EU company**") are not subject to withholding tax, if the EU company has held at least 10% of the share capital for an uninterrupted period of at least one year and meets certain additional (in particular anti abuse) criteria, unless the Offer Shares are attributable to an Austrian permanent establishment of the non-resident company.

Dividends which are attributable to an Austrian permanent establishment of an EU or EEA resident company are exempt from Austrian corporate income tax. If the EU or EEA company has held at least 10% of the share capital, such dividends are also exempt from withholding tax. If the withholding tax exemption does not apply, the Austrian withholding tax is credited against the Austrian corporate income tax liability of such EU or EEA resident company or refunded to it.

Corporations resident in the EU as well as in the EEA (the latter only if there exists an agreement on comprehensive mutual administrative and enforcement assistance) may claim a refund of Austrian withholding tax levied on dividend distributions made by Austrian corporations to the extent that such Austrian withholding tax does not lead to a tax credit in the country of residence of the dividend recipient under the applicable double taxation treaty.

24.1.2.2 Taxation of Capital Gains

For holders of the Offer Shares who are subject to unlimited income tax liability, holding the Offer Shares as non-business assets (*Privatvermögen*), capital gains realized upon a sale are subject to Austrian income tax. In the case of capital gains with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically income that is paid by an Austrian custodian agent (*depotführende Stelle*) or by an Austrian paying agent (*auszahlende Stelle*) provided the non-Austrian custodian agent is a non-Austrian branch or group company of such paying agent and processes the payment in cooperation with the paying agent is subject to a final withholding tax of 27.5%; no additional income tax is levied over and above the amount of tax withheld. In the case of income from capital gains without an Austrian nexus, the income must be included in the income tax return and is subject to a flat income tax rate of 27.5%. In both cases, the option exists to tax all income subject to a special tax rate for financial assets at the progressive income tax rate which may be lower than 27.5%.

Losses from the sale of Offer Shares which are held as private assets may only be offset against other investment income subject to the special 27.5% tax rate (excluding, among others, interest income from bank deposits) and must not be offset against any other income. Generally, this requires the filing of an income tax return with the competent tax office (*Verlustausgleichsoption*). However, the Austrian securities depositories will apply an automatic set-off of losses against investment income from securities accounts at the same securities depository (subject to certain limitations). In this case, the shareholder should receive a certificate showing *inter alia* the deposit-related positive and negative income that has arisen during the respective calendar year and the total amount of negative income and credits that have been taken into account with respect to set-off of losses from his bank. A carry-forward of any such losses is not permitted.

For holders of the Offer Shares who are subject to unlimited income tax liability, holding the Offer Shares as business assets (*Betriebsvermögen*), capital gains realized upon a sale are subject to Austrian income tax. In the case of capital gains with an Austrian nexus (as described above), the income is subject to a withholding tax of 27.5%. The capital gains must always be included in the income tax return, and are taxed at a flat income tax rate of 27.5%, with any withholding tax being credited. Ancillary acquisition costs may be taken into account when calculating the realized capital gain on the shares. In addition, the option exists to tax all income subject to a special tax rate for financial assets at the progressive income tax rate which may be lower than 27.5%. The 27.5% rate will not apply if the main focus of the taxpayer's business activity is the achieving of realized capital gains. Write-downs to the going-concern value and losses derived from the sale of Offer Shares which are held as business assets must primarily be set off against positive income from either realized capital gains and write-ups of financial instruments and derivatives of the same business and only 55% of the remaining loss may be set off against any other income or carried forward.

For holders of the Offer Shares who are subject to unlimited corporate income tax liability, capital gains realized upon the sale of the Offer Shares are taxed at the normal corporate income tax rate of 25%. Private foundations pursuant to the Austrian Private Foundations Act fulfilling the prerequisites contained in Sections 13(3) and (6) of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz* – Federal Law Gazette No. 401/1988) and holding the Offer Shares as a non-business asset are subject to interim taxation at a rate of 25% on income from realized increases in value of the Offer Shares. Interim tax does not become due insofar as distributions subject to withholding tax are made to beneficiaries in the same tax period. In the case of capital gains with an Austrian nexus (as described above), the income is, in general, subject to a withholding tax of 25%, which can be credited against the tax due. Under the conditions set forth in Section 94(12) of the Austrian Income Tax Act (*Einkommensteuergesetz*, Federal Law Gazette No. 400/1988, the "**Austrian Income Tax Act**"), no withholding tax is levied.

Write-downs of Offer Shares and losses derived from the sale of Offer Shares are subject to special provisions with regard to corporate shareholders. First, the shareholder has to substantiate that the write-down or loss has no causal relationship with a tax-exempt dividend distribution. Otherwise, the write-down or loss would not be deductible. Second, the write-down or loss may also not be deductible insofar as there is an economic relationship with a capital contribution by an indirect shareholder. Third, if the corporate shareholder and the issuing company are part of the same tax group, the write-down or loss is not deductible. Fourth, if neither of these provisions apply the write-down or loss may generally only be deducted over a period of seven years if the Offer Shares are part of the fixed assets of the shareholder.

For holders of the Offer Shares who are subject to limited (corporate) income tax liability, capital gains realized upon a sale are generally only taxable if the holder has, at any point in time during the five years prior to the sale, held a participation of at least 1% or, alternatively, if the Offer Shares are attributable to an Austrian permanent establishment. Except in the case of a permanent establishment, most Austrian double taxation treaties provide for an exemption of these capital gains.

Note that in all of these cases, the withdrawal of the Offer Shares from a bank deposit (*Depotentnahme*) and circumstances leading to a loss of Austria's taxation right regarding the Offer Shares *vis-à-vis* other countries, e.g., a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (cf. Section 27(6)(1) of the Austrian Income Tax Act) upon which capital gains are realized.

24.1.3 Tax Cooperation Agreements Austria / Switzerland and Austria / Liechtenstein and Automatic Exchange of Information

The Treaty between Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets was revoked completely as per January 1, 2017 when the agreement regarding the introduction of the global automatic exchange of information (AEOI) standard between the EU and

Switzerland entered into force. As a result, income that used to be covered by the revoked treaty, is subject to the Swiss equivalent of the Austrian Common Reporting Standard Act (*see below*) from January 1, 2017. The Treaty between Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation ("**Tax Treaty**") was revised with regard to the implementation of the AEOI-Agreement between Austria and Liechtenstein as well with effect from January 1, 2017. As a result certain accounts of tax transparent asset structures (*steuerlich transparente Vermögensstrukturen*) existing on December 31, 2016 and of non-transparent asset structures (*steuerlich intransparente Vermögensstrukturen*) may further be subject to the Tax Treaty and exempt from AEOI. The Tax Treaty provides that a Liechtenstein paying agent has to withhold a tax amounting to 25 or 27.5% on, *inter alia*, interest income, dividends and capital gains from assets booked with an account or deposit of such Liechtenstein paying agent or managed by a Liechtenstein paying agent, if the relevant holder of such assets (mainly individuals on their own behalf and beneficial owners of assets, held by a company domiciled in Liechtenstein) is tax resident in Austria. For Austrian income tax purposes this withholding tax has the effect of final taxation regarding the underlying income if the Austrian Income Tax Act provides for the effect of final taxation for such income. The taxpayer can opt for voluntary disclosure instead of the withholding tax by expressly authorizing the Liechtenstein paying agent to disclose to the competent Austrian authority the income and capital gains; these subsequently have to be included in the income tax return.

Based on the so-called "OECD Common Reporting Standard", the states which have committed themselves to implement this standard (Participating States) will exchange potentially taxation-relevant information about financial accounts which an individual holds in a Participating State other than his country of residence. This procedure will commence in 2017 with information for the year 2016. Austria was granted an additional year to implement the new rules.

Austria implemented the relevant directive of the European Council (2014/107/EU) with the Austrian Common Reporting Standard Act (*Gemeinsamer Meldestandard-Gesetz*, GMSG) which became effective on January 1, 2016. The GMSG determines for the purpose of the multilateral mechanism for automatic tax information exchange between Austria and the competent authorities of the other EU member states and of participating non EU countries reporting and due diligence requirements for reporting financial institutions regarding notification obligations via the competent Austrian tax authority. Generally, reporting requirements under the GMSG are applicable to periods starting on January 1, 2017. The notifications generally have to be made not later than by the end of June for the previous calendar year.

24.1.4 Inheritance and Gift Tax

Austria does not levy inheritance or gift tax.

However, it should be noted that certain gratuitous transfers of assets to (Austrian or foreign) private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to a foundation entry tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Entry Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in the event of a transfer mortis causa of financial assets within the meaning of Sections 27(3) and (4) of the Austrian Income Tax Act (except for participations in corporations) if income from such financial assets is subject to the special tax rate of 27.5% or 25%. The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases. Since January 1, 2014, special provisions apply to entities falling under the scope of the Tax Treaty.

In addition, a special notification obligation exists for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles. The notification obligation applies if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Not all gifts are covered by the notification obligation. In case of gifts to certain related parties, a threshold of € 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of € 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Entry Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred.

Further, it should be noted that gratuitous transfers of the Offer Shares may trigger income tax at the level of the transferor pursuant to Section 27(6)(1) of the Austrian Income Tax Act (*see above*).

24.1.5 Other Taxes

Sale and purchase of the Offer Shares is exempt from Austrian VAT with no right to deduct input VAT for related expenses.

Generally no Austrian stock exchange transfer tax or stamp duty is actually levied on the purchase or sale of shares in an Austrian corporation either having its seat or its place of management in Austria. Capital Contribution Tax (*Gesellschaftsteuer*) has been abolished in Austria with effect from January 1, 2016.

However, on May 5, 2014 the Ministers of Finance of 10 participating member countries of the EU (including Austria, Germany, France, Italy and Spain) adopted a declaration for enhanced cooperation regarding the introduction of a financial transaction tax based on the proposal by the European Commission adopted on February 14, 2013. On December 8, 2015 a common statement of the participating countries was made to specify the plans. The first steps of implementation were planned for 2016, they were, however, not implemented as of the date of this Prospectus. Prospective holders of Offer Shares should consult their own tax advisers in relation to the consequences in this respect.

24.2 U.S. Federal Income Tax Considerations for U.S. Holders

The following discussion summarizes the U.S. federal income tax consequences generally applicable to the acquisition, ownership and disposition of the Offer Shares. It applies only to U.S. Holders (as defined below) that acquire and hold the Offer Shares pursuant to this Offering and hold the Offer Shares as capital assets (generally, property held for investment purposes). This section does not apply to holders subject to special rules, including brokers, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, tax-exempt organizations (including private foundations), insurance companies, banks, thrifts and other financial institutions, real estate investment trusts, regulated investment companies, persons liable for alternative minimum tax, persons that hold an interest in an entity that holds the Offer Shares, persons that will own, or will have owned, directly, indirectly or constructively 10% or more (by vote or value) of the Company's voting shares for U.S. federal income tax purposes, persons that hold the Offer Shares as part of a hedging, integration, conversion or constructive sale transaction or a straddle, persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, certain former citizens or long-term residents of the United States, or entities classified as partnerships for U.S. federal income tax purposes.

This discussion does not purport to be a complete analysis of all the potential U.S. federal income tax considerations that may be relevant to U.S. Holders (as defined below) in light of their particular circumstances. Further, it does not address any aspect of U.S. state, local or non-U.S. taxation, U.S. federal estate or gift taxation or the 3.8% tax imposed on certain net investment income. Each prospective investor should consult its tax adviser as to the U.S. federal, state, local, non-U.S. and any other tax consequences of the acquisition, ownership and disposition of the Offer Shares. This discussion is based on the Code, its legislative history, U.S. Treasury Regulations, Internal Revenue Service ("**IRS**") rulings, the Treaty (as defined below) and published court decisions, all as in effect as of the date hereof, and any of which may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. This summary is applicable to U.S. Holders (as defined below) who are residents of the United States for the purposes of the Convention Between the United States of America and the Republic Austria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Treaty**") whose Offer Shares are not, for purposes of the Treaty, effectively connected with a permanent establishment in Austria and who otherwise qualify for the full benefits of the Treaty.

A "**U.S. Holder**" is a beneficial owner of the Offer Shares that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation (or other entity that is classified as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States or any State thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust (A) if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (B) that has validly elected to be treated as a U.S. person for U.S. federal income tax purposes.

If an entity or arrangement that is treated as a partnership for U.S. federal tax income tax purposes holds the Offer Shares, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and on the activities of the partnership. Partnerships that hold the Offer Shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of acquiring, owning and disposing of the Offer Shares.

24.2.1 Distributions on the Offer Shares

Subject to the passive foreign investment company ("**PFIC**") rules discussed below, the gross amount of any distribution received by a U.S. Holder with respect to the Offer Shares (including any amounts withheld to pay Austrian or other non-U.S. withholding taxes) will be included in the gross income of the U.S. Holder as a dividend to the extent attributable to the Company's current and accumulated earnings and profits, as determined under U.S. federal income tax principles. The Company does not intend to calculate its earnings and profits in accordance with U.S. federal income tax principles. Accordingly, U.S. Holders should expect that a distribution generally will be treated as a dividend for U.S. federal income tax purposes.

A distribution on the Offer Shares generally will be foreign-source income for U.S. foreign tax credit purposes, and should generally constitute "passive category income". A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any Austrian or other non-U.S. withholding taxes imposed on dividends received on the Offer Shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign income tax withheld may instead deduct the taxes withheld, but only for a year in which the holder elects to do so for all creditable foreign income taxes. The foreign tax credit rules are complex, and U.S. Holders are urged to consult their tax advisers regarding the availability of the foreign tax credit based on their particular circumstances. Provided that the Company is not a PFIC, it should be considered a "qualified foreign corporation," and therefore distributions, if any, to non-corporate U.S. Holders that are treated as dividends may be eligible for a reduced rate of tax for qualified dividends. As discussed below, the Company does not believe that it was a PFIC for its most recent taxable year and does not believe that it will be treated as a PFIC in the current taxable year or in the foreseeable future. Distributions on the Offer Shares generally will not be eligible for the dividends received deduction generally available to U.S. Holders that are corporations on dividends from a U.S. issuer.

For purposes of applying the rules discussed above, the amount of any dividend paid in euros (including amounts withheld to pay Austria or other non-U.S. withholding taxes) will equal the U.S. dollar value of the euros received calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. Holder, regardless of whether the euros are converted into U.S. dollars. A U.S. Holder will have a tax basis in the euros equal to their U.S. dollar value on the date of receipt. If the euros received are converted into U.S. dollars on the date of receipt, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the distribution. If the euros received are not converted into U.S. dollars on the date of receipt, a U.S. Holder may recognize foreign currency gain or loss on a subsequent conversion or other disposition of the euros. In general, such gain or loss will be treated as U.S. source ordinary income or loss for foreign tax credit purposes.

24.2.2 Sale, Exchange or Other Taxable Disposition

Subject to the PFIC rules discussed below, in general, a U.S. Holder will recognize gain or loss on the sale, exchange or other taxable disposition of the Offer Shares in an amount equal to the difference, if any, between the amount realized for the Offer Shares and the U.S. Holder's adjusted tax basis in the Offer Shares exchanged therefor. Subject to the PFIC discussion below, gain or loss on the sale, exchange or other taxable disposition of the Offer Shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the Offer Shares for more than one year. Net long-term capital gains of non-corporate U.S. Holders may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations under the Code. Any capital gain or loss recognized by a U.S. Holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

If a U.S. Holder receives euro (or other currency other than U.S. dollars) upon a sale, exchange or other taxable disposition of the Offer Shares, such U.S. Holder generally will realize an amount equal to the U.S. dollar value of the euro (or other non-U.S. currency) received at the spot rate on the date of disposition (or, in the case of cash basis and electing accrual basis taxpayers, at the spot rate on the settlement date). A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency on the settlement date. Any currency gain or loss realized on the settlement date or recognized on the subsequent sale, conversion or other disposition of the euro (or other non-U.S. currency) for a different U.S. dollar amount generally will be U.S. source ordinary income or loss for foreign tax credit purposes.

24.2.3 Passive Foreign Investment Company Rules

A non-U.S. corporation will be considered a PFIC for any taxable year in which (1) 75% or more of its gross income is "passive income" under the PFIC rules or (2) 50% or more of the average quarterly value of its assets produce (or are held for the production of) "passive income". For this purpose, subject to an exception relating to certain banks, "passive income" generally includes interest, dividends, rents, royalties and certain gains. Moreover, for purposes of determining if the non-U.S. corporation is a PFIC, if the non-U.S. corporation owns, directly or indirectly, at least 25%, by value, of the shares of another corporation, it will be treated as if it holds directly its proportionate share of the assets and receives directly its proportionate share of the income of such other corporation.

Based on the current and projected composition of the Company's income and valuation of the Company's assets, including goodwill, the Company does not expect to be a PFIC for the current taxable year, and does not expect to become one in the future, although there can be no assurance in this regard. PFIC status is a factual determination that is made annually. Accordingly, it is possible that the Company may become a PFIC in the current or any future taxable year due to changes in valuation or in the composition of its income or assets. In addition, this determination is based in part upon certain proposed United States Treasury regulations that are not yet in effect and which are subject to change in the future. Those regulations and other administrative pronouncements from the Internal Revenue Service provide special rules for determining the character of income and assets derived in the active conduct of a banking business for purposes of the PFIC rules. Although the Company believes it has adopted a reasonable interpretation of the regulations and administrative pronouncements, there can be no assurance that the Internal Revenue Service will follow the same interpretation.

If the Company is classified as a PFIC in any year a U.S. Holder owns the Offer Shares, certain adverse tax consequences could apply to such U.S. Holder. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may mitigate some of the adverse consequences resulting from the Company's treatment as a PFIC. U.S. Holders should consult their tax advisers regarding the application of PFIC rules to their investments in the Offer Shares and whether to make an election or protective election.

24.2.4 Information Reporting

Under Sections 1471 through 1474 of the U.S. Code, Treasury regulations promulgated thereunder, intergovernmental agreements entered into between the United States and other countries and implementing laws in respect of the foregoing (often referred to as the Foreign Account Tax Compliance Act or "**FATCA**"), investors in the Offer Shares may be required to provide substantial information regarding their identities as well of that of their direct and indirect owners and this information may be reported to the IRS or other relevant tax authorities. In addition, it is possible that "passthru payments", as defined under FATCA, on the Company's Offer Shares may be subject to a withholding tax of 30%. Regulations implementing this rule have not yet been adopted or proposed and the IRS has indicated that any such regulations would not be effective prior to January 1, 2019 (or, if later, the date on which final regulations on this issue are published). Holders of Offer Shares should consult their own tax advisors to obtain a more detailed explanation of FATCA and to learn how FATCA might affect each holder in its particular circumstances.

Any dividend payments with respect to the Offer Shares and proceeds from the sale, exchange or other taxable disposition of the Offer Shares may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. In addition, certain individuals holding Offer Shares other than in an account at a financial institution may be subject to additional information reporting requirements.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a Holder's U.S. federal income tax liability, and such Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Certain U.S. Holders are also required to report information relating to Offer Shares, subject to certain exceptions (including an exception for Offer Shares held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold Offer Shares. Holders of Offer Shares are urged to consult their own tax advisors regarding information reporting requirements relating to their ownership of Offer Shares.

25 UNDERWRITING

25.1 Subject of and Arrangements on Underwriting

The Company, the Selling Shareholders and each of the Underwriters will enter into the Underwriting Agreement on or about October 24, 2017, in which the Underwriters, subject to certain conditions, will agree to underwrite and acquire the Firm Shares.

The following table presents the percentage of Firm Shares (the **"Underwriting Commitments"**) which will be underwritten by the respective Underwriter pursuant to the Underwriting Agreement:

Underwriter	Maximum number of Firm Shares to be acquired[1)]	Percentage of Offer Shares
Goldman Sachs International Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom	7,000,000	20%
Morgan Stanley & Co. International plc 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom	7,000,000	20%
Citigroup Global Markets Limited Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB, United Kingdom	4,200,000	12%
Credit Suisse Securities (Europe) Limited One Cabot Square, London E14 4QJ, United Kingdom	4,200,000	12%
J.P. Morgan Securities plc 25 Bank Street, London E14 5JP, United Kingdom	4,200,000	12%
Barclays Bank PLC 5 The North Colonnade, London E14 4BB, United Kingdom	2,100,000	6%
Merrill Lynch International 2 King Edward Street, London EC1A 1HQ, United Kingdom	2,100,000	6%
UBS Limited 5 Broadgate, London, EC2M 2QS, United Kingdom	2,100,000	6%
COMMERZBANK Aktiengesellschaft Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Germany	1,050,000	3%
Raiffeisen Centrobank AG Tegetthoffstraße 1, 1010 Vienna, Austria	1,050,000	3%
Total	**35,000,000**	**100%**

1) Excluding Over-Allotment Shares and excluding exercise of Greenshoe Option.

Source: Company information.

In the Underwriting Agreement, the Underwriters will agree to acquire up to 35,000,000 Firm Shares from the Selling Shareholders as well as up to 5,250,000 Over-Allotment Shares, with regard to a potential Over-Allotment from the Selling Shareholders (other than PSH and certain minority shareholders), and to sell such shares as part of the Offering. The Underwriters will agree to remit (i) the Final Offer Price of the Firm Shares to the Selling Shareholders and (ii) the Final Offer Price of the Over-Allotment Shares to the Selling Shareholders (other than PSH and certain minority shareholders) if and to the extent the Greenshoe Option (less agreed commissions and expenses) is exercised, at the time the shares from the holdings of the Selling Shareholders are delivered.

The Underwriters have provided and may, from time to time, provide services to BAWAG Group and the Selling Shareholders in the ordinary course of business and may extend credit to and have regular business dealings with companies of BAWAG Group and the Selling Shareholders in their capacity as financial institutions (for a more detailed description of the interests of the Underwriters in the Offering, see "*4.9 Interests of Parties Participating in the Offering*").

In addition, one or more of the Underwriters (and/or their respective affiliates) may act as a lender in relation to a margin loan facility. Pursuant to any such margin loan facility, the Cerberus Shareholders or the GoldenTree Shareholders would grant a security interest to the lender over the Existing Shares held by the Cerberus Shareholders or the GoldenTree Shareholders. In the event that the Cerberus Shareholders or the GoldenTree Shareholders default in connection with a margin loan facility, the lender (which may include one or more of the Underwriters or their affiliates) may enforce its security interest over the Company's Existing Shares granted by the Cerberus Shareholders or the GoldenTree Shareholders to such lender. Such enforcement may involve or result in a sale of Existing Shares by the lender.

25.2 Commissions

In the Underwriting Agreement, the Selling Shareholders will agree to pay to the Underwriters as consideration for the services to be provided by or on behalf of the Underwriters in connection with the Offering in the aggregate the following (each with respect to the Existing Shares sold by each of the Selling Shareholders):

- a commission of 1.25% of the gross proceeds of the Offering (including any gross proceeds from the exercising of the Greenshoe Option (the **"Base Fee"**));
- at the absolute discretion of the Cerberus Shareholders and the GoldenTree Shareholders, an incentive commission of up to 1.75% of the gross proceeds of the Offering (including any gross proceeds from the exercising of the Greenshoe Option) (the **"Discretionary Fee"**).

The Base Fee shall be divided among the Underwriters on a proportionate basis in accordance with the Underwriting Commitments. The Base Fee shall be deducted from the gross proceeds of the Offering. It shall not be divided into a selling and an underwriting concession.

The Discretionary Fee will be determined at the sole discretion of the Cerberus Shareholders and the GoldenTree Shareholders. The Cerberus Shareholders and the GoldenTree Shareholders may decide that the Discretionary Fee shall be distributed amongst the Underwriters in proportions that can differ from their Underwriting Commitments. The Cerberus Shareholders and the GoldenTree Shareholders will determine the Discretionary Fee at Pricing, and the Discretionary Fee shall be deducted from the gross proceeds of the Offering. Subsequent to such determination, the Cerberus Shareholders and the GoldenTree Shareholders will, at their sole discretion, decide on the proportion of the distribution of the Discretionary Fee among the Underwriters.

PSH has agreed to reimburse the Underwriters for certain costs and expenses.

25.3 Greenshoe Option and Securities Loan

To cover a potential over-allotment, up to 5,250,000 ordinary bearer shares with no par value (*Stückaktien*) will be made available by the Selling Shareholders (other than PSH and certain minority shareholders) in the form of a securities loan (*Wertpapierdarlehen*) to Goldman Sachs International for the account of the Underwriters. In addition, the Selling Shareholders (other than PSH and certain minority shareholders) will further grant the Underwriters the Greenshoe Option in order to satisfy their retransfer obligation under the securities loan. The Greenshoe Option may be exercised for a number of shares up to the number of shares placed of the Underwriters pursuant to the Over-Allotment. The Greenshoe Option shall be exercisable by the Stabilization Manager on behalf of the Joint Global Coordinators and Joint Bookrunners or Underwriters and in coordination/agreement with the Joint Global Coordinators and Joint Bookrunners and will terminate 30 calendar days after commencement of the stock exchange trading of the Existing Shares.

25.4 Termination / Indemnification

The Underwriting Agreement will provide that the Joint Global Coordinators and Joint Bookrunners, acting on behalf of the Underwriters, may under certain circumstances terminate the Underwriting Agreement, including after the Offer Shares have been allotted and the Existing Shares have been listed, up to delivery and settlement. Grounds for termination include in particular:

- a material adverse change in the economic position or the business of BAWAG Group; and;
- certain events that have or could have a material adverse impact on the financial markets in Austria, the United Kingdom or the United States.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated, and investors will have no claim for delivery. Claims with respect to security commissions already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the financial institution to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

The Company and the Selling Shareholders will agree in the Underwriting Agreement to indemnify the Underwriters against certain liabilities that may arise in connection with the Offering.

25.5 Selling Restrictions

United States

In the Underwriting Agreement, each of the Underwriters will undertake to offer the Offer Shares offered by it to the public solely in Austria and to refrain from (either by itself or through any of its affiliates nor any person acting on its or their behalf) (i) offering, selling, soliciting offers to buy or delivering the shares except (a) to any person in the United States, to such persons whom they reasonably believe to be QIBs (within the meaning of Rule 144A under the Securities Act) in transactions meeting the requirements of Rule 144A of the Securities Act or (b) in accordance with Rule 903 of Regulation S, and (ii) engaging in any directed selling efforts (as the term is defined in Regulation S of the Securities Act) with respect to these shares. These shares are not and will not be registered pursuant to the provisions of the Securities Act or with the securities regulators of the individual states of the United States and may only be offered or sold outside the United States in accordance with Regulation S under the Securities Act and in compliance with all other applicable U.S. legal regulations.

European Economic Area

Each of the Underwriters will represent to the Company and the Selling Shareholders that no shares which are the subject of the Offering outlined in this Prospectus will be offered to the public in any Relevant Member State which has implemented the Prospectus Directive. This shall not apply to the Offering within Austria as indicated in this Prospectus. The Offer Shares may, however, be offered at any time in a Relevant Member State in accordance with the following exemptions listed in the Prospective Directive, provided these exemptions have been implemented in the Relevant Member State:

- offers of securities addressed solely to a legal entity which is a qualified investor as defined by the Prospectus Directive; or
- in all other cases of Article 3 of the Prospectus Directive, as implemented in the Relevant Member State.

These exemptions shall apply only on condition that such an offer to sell shares does not require the publication of a prospectus or a prospectus supplement by the Company or any Underwriter pursuant to Article 3 of the Prospectus Directive.

For the purposes of this section, an "offer to the public" with respect to the Offer Shares in a Relevant Member State shall mean a communication to persons in any form and by any means presenting sufficient information about the terms of the offer and the shares to be offered so as to enable an investor to decide whether to purchase or subscribe for these shares. As a result of the measures to implement the Prospectus Directive in such Member State, deviations may arise in this State. The term Prospectus Directive includes any amendment thereto, including the Directive 2010/73/EU which amends the Prospectus Directive to the extent implemented in the Relevant Member State and any and all relevant implementation measures in each Relevant Member State.

United Kingdom of Great Britain and Northern Ireland

Offers of the shares pursuant to the Offering are only being made to persons in the U.K. who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a Prospectus pursuant to Section 85 (1) of the Financial Services and Markets Act 2000. Any investment or investment activity to which this Prospectus relates is available only to, and will be engaged in only with, investment professionals falling within Article 19 (5), or high net worth entities falling within Article 49 (2), of the FSMA Order or other Relevant Persons under the FSMA Order. Persons who are not Relevant Persons should not take any action on the basis of this Prospectus and should not act or rely on it.

Australia

This Prospectus (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia ("**Corporations Act**"); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission, the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (c) may not be provided in Australia other than to select investors ("Exempt Investors") who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Offer Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Offer Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offer Shares, each purchaser or subscriber of Offer Shares represents and warrants to the Company, the Selling Shareholders, the Underwriters and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Offer Shares under this Prospectus, any supplement or the accompanying prospectus or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Offer Shares for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Offer Shares each purchaser or subscriber of Offer Shares undertakes to the Company, the Selling Shareholders, the Underwriters and their affiliates that such purchaser or subscriber will not, for a period of 12 months from the date of issue or purchase of the Offer Shares, offer, transfer, assign or otherwise alienate those Offer Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with Australian Securities and Investments Commission.

Canada

The Offer Shares may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts*, the underwriters are not required to comply with the disclosure requirements of National Instrument 33-105 *Underwriting Conflicts* regarding underwriter conflicts of interest in connection with this offering.

Dubai International Financial Centre (DIFC)

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for this Prospectus. The Offer Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares offered should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Prospectus you should consult an authorized financial advisor.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law (Law No.25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in

Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under articles 27 *et seqq*. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Offer Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Company, the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**"), and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

26 RECENT DEVELOPMENTS AND OUTLOOK

From June 30, 2017 through the date of this Prospectus, there have been no significant changes in BAWAG Group's business, financial position or results of operations other than those described below.

Austria

The Austrian economy continued to perform well during the most recent quarters. Driven by strong growth rates in private consumption and investments, quarterly gross domestic product ("**GDP**") growth in Austria increased from 0.6% in the fourth quarter 2016 to 0.8% in each of the first and the second quarter of 2017. This uptick in growth was stronger than previously expected by most national and international forecasting agencies, resulting in an upward revision of the growth projections for GDP in 2017. OeNB expects the Austrian economy to grow faster than the euro zone economy as a whole and, with an anticipated GDP growth of 2.7% in 2017, is expected to exceed the German growth rate (source: OeNB, "OeNB-Konjunkturindikator", August 2017).

The development of inflation rates in Europe, geopolitical risks in connection with the Korean peninsula and the expected timing of the tapering of the ECB's expansionary measures are driving factors behind interest rate expectations and long term rates such as Euribor swaps and government bond yields. According to BAWAG Group's own assessment, while ECB key rates and money market rates will likely remain unchanged at extraordinarily low levels with Euribor forward rate agreements indicating a continuation of negative three month Euribor rates in the mid term, longer term yields may become subject to an increased volatility. Austrian high-grade bonds, such as sovereign bonds and covered bonds, are likely to continue to benefit from investors seeking safe harbor investments in times of increasing uncertainty based on BAWAG Group's expectation that Austria will continue to be a stable economy and profit from lower sovereign yields in times of market uncertainty as it used to do in the recent past.

BAWAG Group

Consistent with the typical seasonality experienced by BAWAG Group in the summer months, preliminary results for the third quarter 2017 have indicated slightly lower core revenues, mainly driven by marginally lower sales of retail fee products along with lower transactions activities of corporate and public sector clients as well as reductions from the run-off portfolios and non-core businesses. BAWAG Group, however, expects the third quarter 2017 to be stronger as compared to the third quarter 2016 both in terms of top- and bottom-line performance. Also core revenues are expected to grow again in the fourth quarter 2017 through organic growth as well as through the recently completed acquisition PayLife, the card issuing business of SIX Payment Services Austria and, depending on the timing of the closing, the acquisition of Südwestbank (expected to be completed in the fourth quarter 2017 or the first quarter 2018). With these acquisitions, BAWAG Group intends to expand its core franchise in Germany and increase its customer base by approximately 750,000 new customers. While operating expenses are expected to be slightly lower in the third quarter 2017 given the continued focus on operational efficiencies, they are expected to increase after the completion of the acquisitions and the incremental operating expenses associated with the acquired businesses are expected to decline thereafter as a result of the planned efficiency and integration measures. Risk costs are expected to be broadly in line with the previous quarter, whilst the tax charge reflects the longer term guidance of approximately 22% (see "*10.3.6 Income Taxes and Deferred Taxes*" for details). BAWAG Group's tax charge for the remainder of the year will also be affected by the day-1 impact of the recently completed acquisition of PayLife and, if completed in 2017, the acquisition of Südwestbank (gains on consolidation are not expected to be taxable).

BAWAG P.S.K. Retail. In the third quarter 2017, the BAWAG P.S.K. Retail segment has seen continued customer interest in core loan and fee products, especially in housing loans and securities. Certain other products, such as consumer loans and insurance products, have suffered from lower demand, which BAWAG Group believes was attributable to seasonality. BAWAG Group expects demand to increase again in the fourth quarter 2017, which it intends to support with additional marketing campaigns.

easygroup. While the organic business of the easygroup segment is expected to be largely stable for the third quarter 2017, the segment is expected to grow in the coming quarters due to the recently completed acquisition of PayLife with more than half a million new customers, the addition of an experienced credit card team and the potential of further distribution partnerships.

DACH Corporates & Public Sector. The DACH Corporates & Public Sector segment is expected to report increased originations with large corporates, especially in Germany, for the third quarter of 2017as compared to the third quarter 2016. However, given the low or even negative interest rate environment, BAWAG Group does not expect the origination volume to have a material impact on its net interest income. As in previous years, net commission income is expected to be lower in the third quarter 2017 due to seasonal effects, but BAWAG Group expects that net commission income will be higher in the fourth quarter 2017 with full year 2017 expected to be comparable to 2016.

International Business. The International Business segment experienced a slight downward trend in the first half 2017 which was also driven by appreciation of the Euro against the USD and GBP. The segment has seen fewer early repayments and stable new originations in the third quarter 2017, although the portfolio remains smaller than in 2016. Market conditions were largely stable as compared to the previous year. Because average asset volume for the third quarter 2017 is expected to be slightly lower than the asset volume across the first half 2017, BAWAG Group expects net interest income to be slightly lower in the third quarter 2017 than in the first two quarters 2017.

Based on the performance of BAWAG Group over previous years and the positive development of profits before tax (in particular net interest income) year-to-date, BAWAG Group continues to aim for further growth in the coming years. More specifically, BAWAG Group strives to grow its profit before tax over the coming years at a compound annual growth rate of more than 5%. A portion of this growth is expected to result from the acquisitions of Südwestbank and PayLife, and BAWAG Group may make other acquisitions that may also affect its profit before tax. However, such other acquisitions are not included in BAWAG Group's current profit before tax growth target. Maintaining a strong focus on cost efficiency, BAWAG Group targets a Cost-Income Ratio of below 40% in the mid term. Over the same period, BAWAG Group aims to maintain its RoTE @12% CET1 in the mid to high teens, which is largely consistent with the 16.9% RoTE @12% CET1 reported for the six-month period ended June 30, 2017. Certain other events that will affect the CET1 ratio (Fully Loaded) are described below. It should be noted that BAWAG Group's targets do not constitute forecasts or projections, and in no event BAWAG Group may be held responsible if the targets referred to herein are not met. Even if future results of BAWAG Group meet the targets expressed herein, they may not be indicative of the results of any succeeding periods.

In the first quarter 2017, BAWAG Group was subject to an on-site inspection requested by the ECB with respect to the treatment and management of credit risk in certain business areas. The inspection focused on a detailed analysis and risk overview of two international residential mortgage loan portfolios (the U.K. Mortgage Loan Portfolio acquired in December 2015, see "*13.6.4.1 U.K. Residential Mortgage Loan Portfolio*" for further details, and the French Mortgage Loan Portfolio acquired in December 2016 through a French securitization vehicle (*Fonds commun de titrisation – FCT*), see "*13.6.4.2 French Residential Mortgage Loan Portfolio*" for further details), each forming part of the international retail business allocated to the easygroup segment, and of portfolios in the International Business segment (see "*13.7.2 International Business*" for further details). Furthermore, the organizational framework, policies and procedures and the credit risk management in these areas were evaluated and an analysis of risk-based samples of relevant credit files was conducted.

According to the ECB's findings which were finalized in September 2017, the on-site inspection identified a number of shortcomings in the areas investigated, in particular the incorrect application of certain regulatory provisions resulting in the retrospective adjustment of RWA levels and related figures in relation to the two international residential mortgage loan portfolios of easygroup resulting in a retrospective increase of the associated risk-weighted assets. BAWAG Group addressed the finding in relation to the U.K. Mortgage Loan Portfolio and established the eligibility for a preferential risk weight of 35% as of June 30, 2017, which will be applied by BAWAG Group going forward. In relation to the French Mortgage Loan Portfolio, BAWAG Group increased the reported RWAs as of December 31, 2016 and June 30, 2017 retrospectively (applying for this purpose and going forward a risk weight of 134%), but intends to initiate measures to address the finding in consultation with the ECB (see "*13.14.5 On-site Inspection of the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment*" for further information regarding the on-site inspection).

The retrospective adjustments include adjustments as of and for the six-month period ended June 30, 2017 as set out in the table below (see "*9.4.1 Selected Other Financial Data of BAWAG Group*" and "*9.4.2 Selected Other Financial Data by Segment*" for further adjustments):

	As of and for the six-month period ended June 30, 2017		
	Originally reported number	**Adjusted number**	**Adjustment (in percent points)**
		(unaudited)	
RoE (@12% CET1)	15.7%	14.7%	(1.0)
RoTE (@12% CET1)	18.3%	16.9%	(1.4)
Return on risk-weighted assets	2.39%	2.19%	(0.2)
CET1 ratio (Fully Loaded)	16.5%	15.5%	(1.0)
Total capital ratio (Fully Loaded)	19.3%	18.1%	(1.2)

Note: Numbers are taken from BAWAG Group's accounting records or internal management reporting systems (unaudited) and have been adjusted from the numbers originally reported by BAWAG Group.

Source: BAWAG Group's Financial Statements and Company information.

The following table sets out initial effects of certain current and expected events on the CET1 ratio (Fully Loaded) of BAWAG Group, based on BAWAG Group's current estimates and expectations, and the expected timing of their first occurrence. The calculation is based on the respective absolute effects on the CET1 ratio (Fully Loaded) as of June 30, 2017 but does not reflect any potentially positive balancing effects such as further (i.e., not already accounted for as of June 30, 2017) interim profits as of December 31, 2017 or any reduction of RWA due to redemptions within the French and U.K. Mortgage Loan Portfolios.

Current and expected events	**June 30, 2017**	**September 30, 2017**	**December 31, 2017**	**January 1, 2018**
	(unaudited, initial expected effects on CET1 ratio (Fully Loaded) of events in percent points)			
RWA (French Mortgage Loan Portfolio)[1]	(1.02)			
Interim Dividend[2]	(0.29)			
Large Exposure Treatment of the French Mortgage Loan Portfolio (potential fines)[3]		(0.07)		
Completion of acquisition of PayLife			(0.23)	
Expected completion of acquisition of Südwestbank[4]			(3.10)	
Impact from IFRS 9[5]				(0.40)

1) See "*13.14.5.2 RWA of the French Mortgage Loan Portfolio*" and "*13.6.4.2 French Residential Mortgage Loan Portfolio*" for further details.
2) The interim profits distributed on September 11, 2017 as Interim Dividend represented 0.29 percent points of the CET1 ratio (Fully Loaded) as of June 30, 2017 (i.e., 0.29 percent points would have been deducted from such CET1 ratio if the Interim Dividend had already been accounted for as of June 30, 2017).
3) See "*13.14.5.3 Large Exposure Treatment of the French Mortgage Loan Portfolio*" and "*13.6.4.2 French Residential Mortgage Loan Portfolio*" for further details.
4) See "*14.4 Certain Effects in Connection with the Acquisition of Südwestbank*" for further details.
5) See "*15.5.8.4 Impairment of Financial Assets*" for further details.

Source: BAWAG Group's Financial Statements and Company information.

In line with its strategic objective of operating its business in a safe and secure manner and also in view of the expected effects in the table above, the Company remains committed to a strong capital position and intends to steer its CET1 ratio (Fully Loaded) going forward towards at least 12%. Assuming the RWA reductions and the growth of profit before tax BAWAG Group is aiming for, the Company is currently targeting additional excess capital of more than € 1 billion over the coming years, i.e. capital in excess of a CET1 ratio (Fully Loaded) of 12%. BAWAG Group plans to apply additional excess capital towards organic growth and earnings-accretive M&A at returns consistent with BAWAG Group's target of an RoTE (@12% CET1) in the mid to high teens. The Company believes that the application of excess capital towards organic growth and M&A transactions with a view to achieving high returns and enhancing BAWAG Group's franchise will create the highest value for its shareholders. To the extent excess capital cannot be deployed for organic growth and targeted M&A, however, the Company is committed to paying out dividends in excess of the target of 50% of profit after tax as set in accordance with the future dividend policy, subject to regulatory restrictions on the distribution of earnings (for more details, see "*6.2 Dividend Policy*"). For this purpose, the Company will assess shareholder distributions on a yearly basis as it is committed to returning excess capital to the extent this cannot be applied towards investments in organic growth, pending acquisitions and other M&A opportunities. In respect of the financial year 2017, the Company targets a distribution of 50% of profit of BAWAG Group after tax from the fourth quarter 2017 (determined in accordance with IFRS and calculated on the basis of the average quarterly profits of 2017). On September 11, 2017, the Company already paid an interim dividend of € 51.6 million out of the profits accrued since January 1, 2017 to PSH.

27 STATEMENT PURSUANT TO COMMISSION REGULATION (EC) NO 809/2004 OF APRIL 29, 2004 AND PURSUANT TO SECTION 8 PARA. 1 CAPITAL MARKETS ACT

BAWAG Group AG with its corporate seat in Vienna, Austria, is responsible for this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

BAWAG Group AG

as issuer (*als Emittentin*)

Vienna, October 11, 2017

/s/ Anas Abuzaakouk
CEO

/s/ Enver Sirucic
CFO

28 DEFINED TERMS

29 FINANCIAL INFORMATION

Unaudited Interim Condensed Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU for interim financial reporting (IAS 34) as of and for the six-month period ended June 30, 2017

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	Jan–Jun 2017	Jan–Jun 2016	Q2 2017	Q2 2016
Interest income*)		548.9	528.6	266.9	262.1
Interest expense		(160.3)	(154.3)	(75.0)	(73.0)
Dividend income		6.8	2.0	6.8	1.9
Net interest income	**[1]**	**395.4**	**376.3**	**198.7**	**191.0**
Fee and commission income		142.8	140.8	71.0	67.2
Fee and commission expenses		(36.7)	(37.8)	(14.7)	(15.1)
Net fee and commission income	**[2]**	**106.1**	**103.0**	**56.3**	**52.1**
Gains and losses on financial assets and liabilities*)	[3]	17.3	22.6	(0.8)	9.1
Other operating income and expenses		(24.6)	(29.8)	(0.3)	(14.5)
Operating expenses	[4]	(218.7)	(216.1)	(111.0)	(111.7)
Provisions and impairment losses	[5]	(26.7)	(15.9)	(15.6)	(7.2)
Share of the profit or loss of associates accounted for using the equity method		1.8	4.3	0.7	3.9
Profit before tax		**250.6**	**244.4**	**128.0**	**122.7**
Income taxes		(47.1)	39.3	(20.6)	(21.4)
Profit after tax		**203.5**	**283.7**	**107.4**	**101.3**
Thereof attributable to non-controlling interests		0.0	0.2	0.0	0.1
Thereof attributable to owners of the parent		**203.5**	**283.5**	**107.4**	**101.2**

*) Adjusted for 2016. See Note 3.

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund) in the amount of EUR 27.1 million (Jan–Jun 2016: EUR 33.1 million). Expenses for the deposit guarantee scheme and for the single resolution fund comprise the total expected charges for 2017. The bank levy included in this item amounts to EUR 2.3 million for the first half 2017, compared to EUR 10.9 million according to the old bank levy regime for the first half 2016.

The item Operating expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of EUR 1.0 million (Jan–Jun 2016: EUR 0.9 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	[Notes]	Jan–Jun 2017	Jan–Jun 2016	Q2 2017	Q2 2016
Profit after tax		**203.5**	**283.7**	**107.4**	**101.3**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/loss on defined benefit plans	[12]	3.9	(15.6)	3.9	(10.1)
Income tax on items that will not be reclassified		(1.0)	3.9	(1.0)	2.5
Total items that will not be reclassified to profit or loss		**2.9**	**(11.7)**	**2.9**	**(7.6)**
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge reserve		(6.0)	10.4	6.5	3.3
thereof transferred to profit (-) or loss (+)		(2.6)	(0.8)	(1.6)	(0.5)
Available-for-sale reserve		16.3	(9.8)	8.2	(3.7)
thereof transferred to profit (-) or loss (+)		(11.6)	(14.1)	(12.6)	(2.7)
Share of other comprehensive income of associates accounted for using the equity method		–	(2.9)	–	(2.9)
Income tax relating to items that may be reclassified		(2.6)	(1.8)	(3.7)	0.1
Total items that may be reclassified subsequently to profit or loss		**7.7**	**(4.1)**	**11.0**	**(3.2)**
Other comprehensive income		**10,6**	**-15,8**	**13,9**	**-10,8**
Total comprehensive income, net of tax		**214.1**	**267.9**	**121.3**	**90.5**
Thereof attributable to non-controlling interests		0.1	0.2	0.1	0.1
Thereof attributable to owners of the parent		**214.0**	**267.7**	**121.2**	**90.4**

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	Jun 2017	Dec 2016
Cash reserves		887	1,020
Financial assets designated at fair value through profit or loss		191	202
Available-for-sale financial assets	[6]	3,043	3,209
Held-to-maturity investments		2,319	2,353
Financial assets held for trading	[7]	510	652
Loans and receivables	[8]	31,445	30,821
Customers		28,003	28,494
Credit institutions		2,117	1,635
Securities		1,325	692
Hedging derivatives		590	677
Property, plant and equipment		49	53
Investment properties		4	3
Goodwill		58	58
Brand name and customer relationships		171	174
Software and other intangible assets		141	128
Tax assets for current taxes		6	10
Tax assets for deferred taxes		163	203
Associates recognized at equity		42	45
Other assets		97	135
Total assets		**39,716**	**39,743**

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 16 of this Consolidated Interim Report. The Group took a EUR 2.0 billion tranche in the TLTRO II (targeted longer-term refinancing operations) in late March 2017. The funding is shown in financial liabilities at amortized cost to credit institutions and subsequently affected loans and receivables from customers and loans and receivables from credit institutions on the asset side since the excess funding from the TLTRO II is temporarily invested at the Austrian National Bank. The increase in securities in loans and receivables is mainly due to investments in CLOs.

Total liabilities and equity

in EUR million	[Notes]	Jun 2017	Dec 2016
Total liabilities		**36,367**	**36,607**
Financial liabilities designated at fair value through profit or loss	[9]	847	1,115
Financial liabilities held for trading	[10]	405	617
Financial liabilities at amortized cost	[11]	33,816	32,962
Customers		25,359	25,998
Issued bonds, subordinated and supplementary capital		5,120	4,900
Credit institutions		3,337	2,064
Financial liabilities associated with transferred assets		–	300
Valuation adjustment on interest rate risk hedged portfolios		135	223
Hedging derivatives		140	260
Provisions	[12]	366	404
Tax liabilities for current taxes		21	19
Tax liabilities for deferred taxes		33	27
Other obligations		604	680
Total equity		**3,349**	**3,136**
Equity attributable to the owners of the parent		3,348	3,134
Non-controlling interests		1	2
Total liabilities and equity		**39,716**	**39,743**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2016	**100**	**1,094**	**1,793**	**41**	**–**	**(72)**	**2,956**	**1**	**2,957**
Total comprehensive income	–	–	284	(12)	8	(12)	268	1	269
Balance as of 30.06.2016	**100**	**1,094**	**2,077**	**29**	**8**	**(84)**	**3,224**	**2**	**3,226**
Balance as of 01.01.2017	**100**	**1,094**	**1,967**	**39**	**6**	**(73)**	**3,134**	**1**	**3,135**
Total comprehensive income	–	–	203	12	(4)	3	214		214
Balance as of 30.06.2017	**100**	**1,094**	**2,170**	**51**	**2**	**(70)**	**3,348**	**1**	**3,349**

CONDENSED CASH FLOW STATEMENT

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Cash and cash equivalents at end of previous period	**1,020**	**809**
Profit (after tax, before non-controlling interests)	203	284
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(404)	(349)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(536)	(409)
Interest receipts	578	547
Interest paid	(112)	(109)
Dividend receipts	7	2
Net cash from operating activities	**(264)**	**(34)**
Cash receipt from sales of subsidiaries	–	91
Cash receipts from sales of		
Financial investments	968	794
Tangible and intangible non-current assets	–	1
Cash paid for		
Financial investments	(798)	(1,101)
Tangible and intangible non-current assets	(25)	(20)
Net cash used in investing activities	**145**	**(235)**
Dividends paid	–	–
Others	(14)	(7)
Net cash from financing activities	**(14)**	**(7)**
Cash and cash equivalents at end of period	**887**	**533**

NOTES

The condensed consolidated interim financial statements of BAWAG Holding Group (referred to as BAWAG P.S.K. throughout the document unless stated otherwise) as of 30 June 2017 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 interim financial statements for the first half 2017 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing this interim financial report are the same as those used for the preparation of the consolidated financial statements as of 31 December 2016.

Since January 2016, BAWAG P.S.K. has applied cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

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

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

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in the first half 2017, fair value losses in the amount of minus EUR 6.0 million would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG P.S.K. had not applied cash flow hedge accounting.

As of 30 June 2017, no new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2017.

Already in July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value and fair value through other comprehensive income.

IFRS 9 will become mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

According to IFRS 7, in 2018 the notes of BAWAG P.S.K. Group will contain transitional tables reconciling financial assets and impairment allowances from IAS 39 to IFRS 9. It is not planned to disclose the IFRS 9 figures for the prior year.

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 for sale and 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. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Business Model Assessment
The Group made an assessment of business models for all segments and is currently setting up documentation including:

– policies and objectives for the portfolio

– how the performance of the portfolio is evaluated and reported to the Group's management

– the risks that affect the performance of the business model and how those risks are managed

Assessment Whether Contractual Cash Flows Are Solely Payments of Principal and Interest
The Group analyzed its existing loan portfolio and set up a checklist for SPPI criteria. The Group is currently implementing or adjusting relevant software tools for IFRS 9-compliant reporting. Internal processes are being defined and in-house training of relevant divisions is being performed.

Financial Liabilities
The classification and measurement requirements for financial liabilities are only slightly changed 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.

Modifications

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

BAWAG P.S.K. has evaluated different software solutions and has decided to use the existing systems to implement the automated treatment of modifications.

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 were 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.

The Group currently expects no major impacts on the consolidated financial statements resulting from IFRS 9 hedge accounting and will continue to apply the macro fair value hedge accounting model for interest rate risk according to IAS 39. IFRS 9 macro hedge accounting provisions will be evaluated after finalization of the respective requirements by the IASB.

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 applied methodology is based on the standard-setting document "IFRS 9 Financial Instruments (July 2014)"[1]. Since this document is formulated in a very general manner (with respect to the model requirements), the following documents, which are more detailed and contain further principles for modelling IFRS 9-compliant lifetime expected loss, are also being taken into account as input for the methodology:

– Global Public Policy Committee (June 2016): "The implementation of the IFRS 9 impairment requirements by banks"

– Basel Committee on Banking Supervision (December 2015): "Guidance on credit risk and accounting for ECL"

– European Banking Authority (July 2016): "Draft guidelines on credit institutions' credit risk management practices and accounting for expected credit losses"

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 for different products.

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 and a firm-value based approach ("Peridery approach") PD are used. For each relevant business segment, a separate model was developed to forecast the lifetime PDs by considering forecasts of macroeconomic factors. An initial validation ("back testing") was performed for the models of the main business segments in order to quantify the main impact of lifetime expected loss. For 2017, a complete validation process is planned in parallel to the current regulation.

The decision as to whether a financial instrument is assigned to stage 1 ("unchanged credit quality") or stage 2 ("significantly deteriorated credit quality") is based on quantitative transfer criteria as well as on qualitative factors. As quantitative criteria, a relative (ratio of relevant lifetime PDs) and an absolute (difference of relevant lifetime PDs) criterion are considered. For investment grade ratings, the absolute transfer criterion is applied in substitution to the low risk exemption that can be chosen under the IFRS 9 Standard. This allows for more flexibility as stage transfers are also possible for transactions that have an assigned investment grade rating. As soon as the relevant ratios and differences of lifetime PDs exceed defined thresholds, the financial instrument is assigned to stage 2, in which lifetime expected loss numbers are considered as expected credit losses instead of 12-month expected loss numbers.

The qualitative factors include the following tests: 1) whether the financial instrument is 30 days delayed or not, 2) whether the financial instrument is on a watch list or not, 3) whether the financial instrument has a warning signal or not. As soon as one of the qualitative factors is relevant, the financial instrument is assigned to stage 2.

Status of the Implementation Project

The implementation project of BAWAG P.S.K. is at an advanced stage, and some of the IFRS 9 relevant parameters and models are currently being finalized. Significant internal and external resources were bundled to ensure a timely implementation of the IFRS 9 project. The governance structure is ensured by the involvement of the CFO and the CRO in the steering committee and to ensure the timely implementation of the project. At the Supervisory Board level, IFRS 9 status updates are provided to the Risk and Credit Committee.

In June 2017, BAWAG P.S.K. started with a parallel calculation. The reason for the parallel calculation is to test the effects and process workflows in a live run and integrate them into the overall management of BAWAG P.S.K.

When IFRS 9 is applied for the first time, BAWAG P.S.K. expects on the basis of the portfolio as of 30 June 2017 and the current project progress the following impacts on its financial accounts: Currently, we expect a slightly negative effect on IFRS equity due to impacts arising from both Classification & Measurement as well as Impairment. Concerning our Common Equity Tier 1 ratio we expect a negative impact of around <40 basis points.

The disclosed effects are based on the Group's current assessment and may change when IFRS 9 is applied for the first time due to changes in the composition of the portfolio or different economic conditions.

IFRS 15 is mandatory for annual reporting periods beginning on or after 1 January 2018 and will have no material impact on the consolidated financial statements of BAWAG P.S.K. from a current perspective.

1) In the following this document is called IFRS 9 Standard.

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 P.S.K. BAWAG P.S.K. is currently evaluating the effects of IFRS 16 on the consolidated financial statements. One major effect for BAWAG P.S.K. 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.

Accounting for the acquisition of start:bausparkasse AG and IMMO-BANK AG according to IFRS 3 is still based on preliminary results. BAWAG P.S.K. expects finalization within the measurement period according to IFRS 3.45. Currently, the Group does not expect any major impacts on its equity.

The valuation principles as of 31 December 2016 were applied again.

As of 30 June 2017, the Group consists of 37 (31 December 2016: 36) fully consolidated entities and 2 (31 December 2016: 2) entities that are accounted for using the equity method in Austria and abroad. In the second quarter 2017, BV Vermögensverwaltung GmbH was included in the scope of consolidation due to materiality.

The interim financial statements for the first half 2017 were 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 2016, we refer to the Notes to the consolidated financial statements as of 31 December 2016.

MAJOR EVENTS AFTER THE REPORTING DATE

Signed agreement to acquire Südwestbank AG

On 14 July 2017, BAWAG P.S.K. signed an agreement to acquire Südwestbank AG, a regional private bank with over EUR 7 billion assets and approximately 100,000 retail and business customers headquartered in Stuttgart, Germany. The transaction is expected to close in 2017 and is subject to customary closing conditions and regulatory approvals.

Sale of media.at Group

On 18 July 2017 the sale of media.at GmbH (and its subsidiaries) was completed with closing. P.S.K. Beteiligungsverwaltung GmbH sold, along with all other shareholders, its entire 26.3% stake to a third party.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 | Net interest income

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Interest income*)	548.9	528.6
Interest expense	(160.3)	(154.3)
Dividend income	6.8	2.0
Net interest income	**395.4**	**376.3**

*) Adjusted for 2016.

2 | Net fee and commission income

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Fee and commission income	**142.8**	**140.8**
Payment transfers	86.2	84.1
Lending	15.2	15.2
Securities and custody business	21.4	18.7
Other	20.0	22.8
Fee and commission expenses	**(36.7)**	**(37.8)**
Payment transfers	(18.4)	(19.1)
Other	(18.3)	(18.7)
Net fee and commission income	**106.1**	**103.0**

3 | Gains and losses on financial assets and liabilities

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Realized gains on sales of subsidiaries and securities	17.8	22.9
Fair value gains	(4.6)	4.1
Gains from fair value hedge accounting	4.0	0.6
Others*)	0.1	(5.0)
Gains and losses on financial assets and liabilities	**17.3**	**22.6**

*) Adjusted for 2016.

Change in presentation of amortization of day one profits

IFRS does not provide guidance on the presentation of amortization of day one profits. Accordingly, it can be shown either in interest income or gains and losses on financial assets and liabilities. Until the end of the third quarter 2016, the disclosure was made in gains and losses on financial assets and liabilities. As the day one profit will be amortized on a systematic basis, BAWAG P.S.K. considers this regular amortization as similar to interest income. Therefore, since the fourth quarter 2016 the amortization of day one profits is shown in interest income to provide greater transparency. Comparative amounts for the previous period were adjusted accordingly. The following table shows the effects in the first half 2017 and the first half 2016 on each item that was reclassified:

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Decrease in other gains and losses on financial assets and liabilities	(3.9)	(5.9)
Increase in interest income	+3.9	+5.9

4 | Operating expenses

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Staff costs	(123.3)	(111.3)
Other administrative expenses	(68.0)	(73.3)
Depreciation and amortization on tangible and intangible assets	(19.1)	(18.9)
Restructuring and other one-off expenses	(8.3)	(12.6)
Operating expenses	**(218.7)**	**(216.1)**

The line item Restructuring and other one-off expenses mainly includes expenses for restructuring costs.

5 | Provisions and impairment losses

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Loan-loss provisions and changes in provisions for off-balance credit risk	(21.4)	(12.7)
Provisions and expenses for operational risk	(4.9)	(2.4)
Impairment losses on financial assets	0.0	(0.8)
Impairment losses on non-financial assets	(0.4)	0.0
Provisions and impairment losses	**(26.7)**	**(15.9)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Available-for-sale financial assets

in EUR million	Jun 2017	Dec 2016
Bonds	**2,969**	**3,129**
Bonds of other issuers	2,779	2,619
Public sector debt instruments	190	510
Subsidiaries and other equity investments	**74**	**80**
Available-for-sale financial assets	**3,043**	**3,209**

7 | Financial assets held for trading

in EUR million	Jun 2017	Dec 2016
Derivatives in trading book	169	230
Derivatives in banking book	341	422
Financial assets held for trading	**510**	**652**

8 | Loans and receivables

					Jun 2017
in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Receivables from customers	**27,607**	**621**	**(160)**	**(65)**	**28,003**
thereof IBNR portfolio provision[1)]	–	–	–	(37)	(37)
Securities	**1,325**	–	–	–	**1,325**
Receivables from credit institutions	**2,117**	–	–	–	**2,117**
Total	**31,049**	**621**	**(160)**	**(65)**	**31,445**

1) Allowance for incurred but not reported losses.

					Dec 2016
in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Receivables from customers	**28,152**	**547**	**(129)**	**(76)**	**28,494**
thereof IBNR portfolio provision[1)]	–	–	–	(54)	(54)
Securities	**692**	–	–	–	**692**
Receivables from credit institutions	**1,635**	–	–	–	**1,635**
Total	**30,479**	**547**	**(129)**	**(76)**	**30,821**

1) Allowance for incurred but not reported losses.

The increase in the line item receivables from credit institutions reflects the Bank's participation in the TLTRO II in the amount of EUR 2.0 billion since the excess funding from the TLTRO II is temporarily invested at the Austrian National Bank. In addition, the line item receivables from customers is also affected by the TLTRO II. For further details, please refer to the explanations on the statement of financial position.

The following breakdown depicts the composition of the item Loans and receivables according to the Group's segments:

					Jun 2017
in EUR 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	11,446	183	(99)	(25)	11,505
easygroup	4,063	38	(16)	(3)	4,082
DACH Corporates & Public Sector	7,739	34	(23)	–	7,750
International Business	4,888	50	(17)	–	4,921
Treasury Services & Markets	2,726	–	–	–	2,726
Corporate Center	187	316	(5)	(37)	461
Total	**31,049**	**621**	**(160)**	**(65)**	**31,445**

					Dec 2016
in EUR 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	11,499	160	(84)	(19)	11,556
easygroup	4,426	32	(20)	(3)	4,435
DACH Corporates & Public Sector	7,568	34	(21)	0	7,581
International Business	5,392	–	–	–	5,392
Treasury Services & Markets	1,496	–	–	–	1,496
Corporate Center	99	321	(5)	(54)	361
Total	**30,479**	**547**	**(129)**	**(76)**	**30,821**

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

Receivables from customers – Breakdown by credit type

in EUR million	Jun 2017	Dec 2016
Loans	24,318	25,300
Current accounts	1,279	1,325
Finance leases	1,178	1,202
Cash advances	1,228	667
Receivables from customers	**28,003**	**28,494**

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

in EUR million	Jun 2017	Dec 2016
Issued debt securities and other securitized liabilities	737	1,006
Subordinated and supplementary capital	110	109
Financial liabilities designated at fair value through profit or loss	**847**	**1,115**

10 | Financial liabilities held for trading

in EUR million	Jun 2017	Dec 2016
Derivatives trading book	78	143
Derivatives banking book	327	474
Financial liabilities held for trading	**405**	**617**

11 | Financial liabilities measured at amortized cost

in EUR million	Jun 2017	Dec 2016
Deposits from banks	**3,337**	**2,064**
Deposits from customers	**25,359**	**25,998**
Savings deposits – fixed interest rates	1,124	1,928
Savings deposits – variable interest rates	6,809	6,372
Deposit accounts	5,721	6,074
Current accounts – Retail	7,911	7,341
Current accounts – Corporates	2,773	2,505
Other deposits[1)]	1,021	1,778
Issued bonds, subordinated and supplementary capital	**5,120**	**4,900**
Issued debt securities and other securitized liabilities	4,657	4,436
Subordinated and supplementary capital	463	464
Financial liabilities measured at amortized cost	**33,816**	**32,962**

1) Primarily term deposits.

As of 30 June 2017, the line item deposits from banks includes a tranche in the TLTRO II in the amount of EUR 2.0 billion. For further details, please refer to the explanations on the statement of financial position.

12 | Provisions

in EUR million	Jun 2017	Dec 2016
Provisions for social capital	353	386
Anticipated losses from pending business	7	8
Other items including legal risks	6	10
Provisions	**366**	**404**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. The change of the interest rate from 1.75% to 1.80% resulted in a net impact of EUR 2.3 million in other comprehensive income and EUR 0.1 million in profit.

13 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

					Jun 2017
in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	118	631	48	–	91
Securities	–	93	–	21	–
Other assets (incl. derivatives)	5	0	5	–	–
Financial liabilities – customers	–	0	11	118	4
Other liabilities (incl. derivatives)	–	–	–	1	–
Guarantees provided	–	–	–	–	1
Interest income	0.4	14.9	0.5	0.1	1.0
Interest expenses	–	4.8	0.0	0.7	0.0
Net fee and commission income	–	0.0	0.0	7.8	0.2

As of 30 June 2017, there is a loan from BAWAG P.S.K. to Promontoria Sacher Holding N.V. in the amount of EUR 117.5 million and maturing on 30 June 2018. The interest rate is determined at standard market terms.

					Dec 2016
in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	6	808	48	0	139
Securities	–	43	–	20	–
Other assets (incl. derivatives)	36	0	6	–	–
Financial liabilities – customers	–	0	11	113	10
Other liabilities (incl. derivatives)	–	0	–	1	–
Guarantees provided	–	–	–	–	1
Interest income	–	31.6	1.7	0.3	2.6
Interest expenses	0.0	0.8	0.0	1.5	0.0
Net fee and commission income	0.0	–	0.0	18.0	0.6

					Jun 2016
in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	–	766	51	0	147
Securities	–	–	–	20	–
Other assets (incl. derivatives)	30	1	6	–	–
Financial liabilities – customers	–	0	14	96	10
Other liabilities (incl. derivatives)	–	0	–	2	–
Guarantees provided	–	–	–	–	1
Interest income	–	16.9	0.9	0.1	1.3
Interest expenses	–	0.0	0.0	0.8	0.0
Net fee and commission income	–	–	0.0	10.8	0.3

Information regarding natural persons

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

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
in EUR million	Jun 2017	Jun 2017	Dec 2016	Dec 2016
Current account deposits	10	2	10	3
Savings deposits	1	3	0	3
Loans	0	4	1	3

14 | Segment reporting

This information is based on the Group structure as of 30 June 2017.

The segment reporting presents the results of the operating business segments of BAWAG P.S.K. 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 and planned depreciations are assigned to the individual segments according to an allocation factor.

BAWAG P.S.K. is managed in accordance with the following six main 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, building society savings and loans, estate leasing 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 and mobile leasing platforms as well as lending to our international retail clients including own issues covered with an international mortgage portfolio.
- **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.
- **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.
- **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 our portfolio of financial securities.
- **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. 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:

in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
							Jan–Jun 2017
Net interest income	197.5	78.3	31.9	65.4	24.9	(2.6)	395.4
Net fee and commission income	82.3	5.4	19.8	0.0	0.0	(1.4)	106.1
Core revenues	**279.8**	**83.7**	**51.7**	**65.4**	**24.9**	**(4.0)**	**501.5**
Gains and losses on financial instruments	0.8	0.0	1.7	(0.5)	9.8	5.5	17.3
Other operating income and expenses	1.1	(0.5)	0.0	0.0	0.0	1.8	2.4
Operating income	**281.7**	**83.2**	**53.4**	**64.9**	**34.7**	**3.3**	**521.2**
Operating expenses	**(134.4)**	**(15.8)**	**(20.9)**	**(15.0)**	**(8.0)**	**(23.5)**	**(217.6)**
Regulatory charges	(14.3)	(2.4)	–	–	–	(11.4)	(28.1)
Total risk costs	(16.5)	5.7	5.5	(15.5)	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	**116.5**	**70.7**	**38.0**	**34.4**	**26.7**	**(35.7)**	**250.6**
Income taxes	–	–	–	–	–	(47.1)	(47.1)
Profit after tax	**116.5**	**70.7**	**38.0**	**34.4**	**26.7**	**(82.8)**	**203.5**
Non-controlling interests	–	–	–	–	–	0.0	0.0
Net profit	**116.5**	**70.7**	**38.0**	**34.4**	**26.7**	**(82.8)**	**203.5**
Business volumes							
Assets	11,632	4,102	7,958	5,130	7,799	3,095	39,716
Liabilities	20,856	4,257	6,811	1	2,404	5,387	39,716
Risk-weighted assets	4,471	2,278	2,649	4,099	2,100	1,320	16,917

in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
							Jan–Jun 2016
Net interest income	169.4	60.2	40.3	67.8	28.2	10.4	376.3
Net fee and commission income	74.6	4.6	20.1	0.0	0.0	3.7	103.0
Core revenues	**244.0**	**64.8**	**60.4**	**67.8**	**28.2**	**14.1**	**479.3**
Gains and losses on financial instruments	0.8	0.0	(0.1)	(1.7)	0.7	22.9	22.6
Other operating income and expenses	1.0	0.1	0.0	0.0	0.0	2.1	3.2
Operating income	**245.8**	**64.9**	**60.3**	**66.1**	**28.9**	**39.1**	**505.1**
Operating expenses	**(136.0)**	**(15.7)**	**(25.7)**	**(13.3)**	**(8.0)**	**(16.5)**	**(215.2)**
Regulatory charges	(12.4)	(2.5)	–	–	–	(19.1)	(34.0)
Total risk costs	(17.3)	(2.1)	1.4	3.0	0.0	(0.8)	(15.8)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	4.3	4.3
Profit before tax	**80.1**	**44.6**	**36.0**	**55.8**	**20.9**	**7.0**	**244.4**
Income taxes	–	–	–	–	–	39.3	39.3
Profit after tax	**80.1**	**44.6**	**36.0**	**55.8**	**20.9**	**46.3**	**283.7**
Non-controlling interests	–	–	–	–	–	(0.2)	(0.2)
Net profit	**80.1**	**44.6**	**36.0**	**55.8**	**20.9**	**46.1**	**283.5**
Business volumes							
Assets	9,256	3,247	7,437	5,040	6,302	3,447	34,729
Liabilities	18,158	3,673	3,959	1	2,860	6,078	34,729
Risk-weighted assets	3,785	1,849	2,893	3,890	1,842	1,404	15,663

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

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

in EUR million	Jan-Jun 2017	Jan-Jun 2016
Other operating income and expenses according to segment report	2.4	3.2
Regulatory charges	(27.1)	(33.1)
Other operating income and expenses according to consolidated profit or loss statement	**(24.6)**	**(29.8)**

in EUR million	Jan-Jun 2017	Jan-Jun 2016
Operating expenses according to segment report	217.6	(215.2)
Regulatory charges	(1.0)	(0.9)
Operating expenses according to consolidated profit or loss statement	**(218.7)**	**(216.1)**

15 | Capital management

Regulatory reporting is performed on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group as the EEA parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds of Promontoria Sacher Holding N.V. Group and BAWAG Holding Group applying transitional rules and its own funds requirement as per 30 June 2017 and 31 December 2016 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

in EUR million	Promontoria Jun 2017[3]	Promontoria Dec 2016	BAWAG Holding Jun 2017[3]	BAWAG Holding Dec 2016
Share capital and reserves (including funds for general banking risk)	3,122	3,121	3,159	3,158
Not yet distributed dividend for 2015[1]	(25)	(25)	–	–
Deduction of intangible assets	(260)	(190)	(260)	(190)
Other comprehensive income	(35)	(30)	(35)	(30)
IRB risk provision shortfalls[2]	(40)	(19)	(40)	(19)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(34)	(47)	(34)	(47)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(119)	(100)	(119)	(100)
Excess of deduction from AT1 items over AT1 capital	(70)	(133)	(70)	(133)
Common Equity Tier I	**2,539**	**2,577**	**2,601**	**2,639**
IRB risk provision shortfalls[2]	(5)	(6)	(5)	(6)
Deduction of intangible assets	(65)	(127)	(65)	(127)
Excess of deduction from AT1 items over AT1 capital	70	133	70	133
Additional Tier I	**–**	**–**	**–**	**–**
Tier I	**2,539**	**2,577**	**2,601**	**2,639**
Supplementary and subordinated debt capital	478	484	478	484
Excess IRB risk provisions	–	24	0	24
Less significant investments, IRB risk provision shortfalls[2]	(26)	(26)	(26)	(26)
Tier II	**452**	**482**	**452**	**482**
Own funds	**2,991**	**3,059**	**3,053**	**3,121**

1) Dividends for 2015: In the third quarter 2016, BAWAG Holding paid a dividend of EUR 309 million to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding GmbH. Promontoria Sacher Holding N.V. paid a dividend of EUR 265 million to its shareholders. Another EUR 25 million have not yet been paid but deducted from CET1 as a foreseeable dividend.
2) June 2017: According to CRR, LLPs as of 31 December 2016 including disposals until 30 June 2017.
3) Own funds as of 30 June 2017 differ from those as of 31 December 2016 inter alia because of different CRR transitional rules for 2017 and 2016 for the eligibility of capital and deductions from own funds.

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

in EUR million	Promontoria Jun 2017	Promontoria Dec 2016	BAWAG Holding Jun 2017	BAWAG Holding Dec 2016
Credit risk	15,203	15,423	15,269	15,426
Market risk	45	59	45	59
Operational risk	1,580	1,633	1,580	1,633
Capital requirements (risk-weighted assets)	**16,828**	**17,115**	**16,894**	**17,118**

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

	Promontoria Jun 2017	Promontoria Dec 2016	BAWAG Holding Jun 2017	BAWAG Holding Dec 2016
Common Equity Tier I capital ratio based on total risk	16.0%	14.8%	16.5%	15.1%
Total capital ratio based on total risk	18.9%	17.6%	19.3%	18.0%

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	Jun 2017	**Dec 2016**	**Jun 2017**	**Dec 2016**
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	15.1%	n/a	15.4%	n/a
Total capital ratio based on total risk (excl. interim profit)	17.8%	n/a	18.1%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	16.2%	15.1%	16.7%	15.4%
Total capital ratio based on total risk (incl. interim profit)	19.1%	17.9%	19.5%	18.2%

16 | 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 EUR million	Carrying amount Jun 2017	Fair value Jun 2017	Carrying amount Dec 2016	Fair value Dec 2016
Assets				
Cash reserves	887	887	1,020	1,020
Financial assets designated at fair value through profit or loss	191	191	202	202
Available-for-sale financial assets				
Recognized at fair value	2,970	2,970	3,129	3,129
Recognized at cost	73	n/a	80	n/a
Held-to-maturity investments	2,319	2,392	2,353	2,448
Financial assets held for trading	510	510	652	652
Loans and receivables	31,445	31,709	30,821	31,298
Hedging derivatives	590	590	677	677
Property, plant and equipment	49	n/a	53	n/a
Investment properties	4	5	3	5
Intangible non-current assets	370	n/a	360	n/a
Other assets	308	n/a	393	n/a
Total assets	**39,716**		**39,743**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	847	847	1,115	1,115
Financial liabilities held for trading	405	405	617	617
Financial liabilities at amortized cost	33,816	34,024	32,962	33,261
Financial liabilities associated with transferred assets	–	–	300	300
Valuation adjustment on interest rate risk hedged portfolios	135	135	223	223
Hedging derivatives	140	140	260	260
Provisions	366	n/a	404	n/a
Other obligations	658	n/a	726	n/a
Equity	3,348	n/a	3,134	n/a
Non-controlling interests	1	n/a	2	n/a
Total liabilities and equity	**39,716**		**39,743**	

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.

The available-for-sale financial assets include EUR 73 million in equity investments in private and public limited companies. The fair value of these financial instruments has not been disclosed because their fair value cannot be measured reliably. There is no active market for these financial instruments and future cash flows cannot be calculated reliably. BAWAG P.S.K. does not intend to sell or derecognize significant investments in equity held at the reporting date in the near future.

Securities recognized in the line items Held to maturity investments and Loans and receivables are measured at amortized cost. Therefore, their book value does not include unrealized gains in the amount of EUR 105 million.

Furthermore, own issues recognized in the line item Financial liabilities at amortized cost do not include unrealized losses in the amount of EUR 189 million.

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:** The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.
- **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.
- **Other:** This pertains to stakes in non-consolidated subsidiaries that are classified as available-for-sale.

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 2017
in EUR million	**Level 1**	**Level 2**	**Level 3**	**Others[1)]**	**Total**
Assets					
Financial assets designated at fair value through profit or loss	2	188	1	–	191
Available-for-sale financial assets	2,878	91	1	73	3,043
Financial assets held for trading	0	510	–	–	510
Hedging derivatives	–	590	–	–	590
Total fair value assets	**2,880**	**1,379**	**2**	**73**	**4,334**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	437	410	–	847
Financial liabilities held for trading	–	405	–	–	405
Valuation adjustment on interest rate risk hedged portfolios	–	135	–	–	135
Hedging derivatives	–	140	–	–	140
Total fair value liabilities	**–**	**1,117**	**410**	**–**	**1,527**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80-81 because their fair value cannot be measured reliably.

in EUR million	Level 1	Level 2	Level 3	Others[1)]	Dec 2016 Total
Assets					
Financial assets designated at fair value through profit or loss	2	199	1	–	202
Available-for-sale financial assets	2,949	179	1	80	3,209
Financial assets held for trading	–	652	–	–	652
Hedging derivatives	–	677	–	–	677
Total fair value assets	**2,951**	**1,707**	**2**	**80**	**4,740**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	638	477	–	1,115
Financial liabilities held for trading	–	617	–	–	617
Valuation adjustment on interest rate risk hedged portfolios	–	223	–	–	223
Hedging derivatives	–	260	–	–	260
Total fair value liabilities	**–**	**1,738**	**477**	**–**	**2,215**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80-81 because their fair value cannot be measured reliably.

BAWAG P.S.K. 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 2017, one available-for-sale security (2016: seven) was moved from Level 1 to Level 2 due to subsequent illiquid market prices. Four available-for-sale securities (2016: five) 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 EUR 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 profit or loss			
for assets held at the end of the period	–	–	(7)
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	–	–	(60)
Sales	–	–	–
Foreign exchange differences	–	–	–
Transfers into or out of other levels	–	–	–
Closing balance as of 30.06.2017	**1**	**1**	**410**

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2016	**2**	**4**	**468**
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	–	–	(12)
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	–	1	–
Redemptions	(1)	(4)	(40)
Sales	–	–	–
Foreign exchange differences	–	–	–
Change in scope of consolidation	–	–	61
Transfers into or out of other levels	–	–	–
Closing balance as of 31.12.2016	**1**	**1**	**477**

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.

In the first half 2017, the financial liabilities reported under Level 3 in 2016 decreased by a total of EUR 67 million, mainly due to redemptions.

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 2016: 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.

Sensitivity analysis of 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 P.S.K. had Level 3 financial assets recognized at their fair value in the amount of EUR 2 million as of 30 June 2017. 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 2017 would have increased by EUR 1.6 million (31 December 2016: EUR 2.0 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 30 June 2017 would have decreased by EUR 0.6 million (31 December 2016: minus EUR 0.6 million).

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG P.S.K. 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 operational 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 changes in regulatory requirements, market conditions as well as products and services offered by the Group.

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

– Strategic Risk

– Market & Liquidity Risk Controlling

– Enterprise Risk Management

– Credit Risk Management

– European Retail Risk Management

– Non-Financial Risk Management & Regulatory Compliance

The following risks including their respective sub-risks are considered as material for BAWAG P.S.K.:

– Credit risk

– Market risk

– Liquidity risk

– Operational 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 P.S.K. are described on the following pages.

17 | 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 the 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: The 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.
– Operational risk: The operational risk is quantified using a value-at-risk model.
– Other risks: This risk category includes participation risk, macroeconomic risk, strategic risk, reputation risk, capital risk and compliance risk (including the risk from money laundering and terrorism financing). 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 P.S.K.

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.

18 | 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 as well as retail and small business customers. The Strategic Risk division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In the retail and small business customer segment as well as in easygroup, the creditworthiness of private and small business customers is assessed via automated scorecards. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer's account usage. 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 expected 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 the retail and small business customer segment. 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 basis.

Business segment development in the first half 2017

The Group's risk and business strategy 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.

In the first half 2017, the BAWAG P.S.K. Retail segment experienced further growth across core products. Significant efforts were undertaken to further develop overall underwriting standards and processes through automated and continuously enhanced underwriting models and processes. The Group's new mortgage originations have an average LTV of 74% and an overall portfolio LTV of 65%.

easygroup includes our direct banking subsidiary *easybank*, our auto and mobile leasing platforms as well as our performing residential mortgage portfolios in Western Europe. These portfolios consist of a UK & French performing mortgage portfolio (outstanding balance of GBP 1.4 billion and EUR 1.2 billion, respectively, as of June 30, 2017).

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

The segments DACH Corporates & Public Sector as well as the International Business 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. This is exemplified in the Bank's exposure to the oil & gas sector, which – in light of decreasing commodity prices – has been under review since 2015 and has led to a majority of customers being put on the watchlist. As a result, the total credit volume in the oil & gas sector was reduced by 26%, from EUR 324 million in 2015 to EUR 239 million as of the first half 2017, which currently represents less than 2% of the total corporate book.

The Treasury Services & Markets segment includes interest rate and currency risk positions as well as capital market activities and comprises the Group's portfolio of debt securities. 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.

Credit risk and bonds by business segment

							Jun 2017
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**	**Treasury Services & Markets**	**Corporate Center**	**Total portfolio**
Book value	11,504	4,083	7,576	4,780	1,848	463	30,254
Bonds	3	0	360	333	5,951	19	6,666
Off-balance business	1,199	644	725	281	265	877	3,991
Total	**12,707**	**4,727**	**8,661**	**5,394**	**8,064**	**1,359**	**40,911**
thereof collateralized[1)]	6,039	3,602	2,416	2,018	105	0	14,181
thereof NPL (incl. LLP, gross view)	266	138	80	50	0	255	789

1) Regulatory eligible collateral comprises residential and commercial real estate, guarantees, life insurance, etc.

							Dec 2016
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**	**Treasury Services & Markets**	**Corporate Center**	**Total portfolio**
Book value	11,558	4,436	7,344	5,242	1,326	368	30,274
Bonds	0	0	446	392	5,366	23	6,227
Off-balance business	1,108	498	1,123	303	314	714	4,060
Total	**12,666**	**4,934**	**8,913**	**5,937**	**7,006**	**1,105**	**40,561**
thereof collateralized[1)]	6,016	3,897	2,403	2,167	193	1	14,677
thereof NPL (incl. LLP, gross view)	214	92	50	0	0	255	611

1) Regulatory eligible collateral comprises residential and commercial real estate, guarantees, life insurance, etc.

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

					Jun 2017
		Note 8		Risk view	Segment report
in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)[1]	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,504	3	11,508	124	11,632
easygroup	4,083	0	4,083	19	4,102
DACH Corporates & Public Sector	7,750	185	7,935	23	7,958
International Business	4,921	192	5,114	17	5,130
Treasury Services & Markets	2,726	5,073	7,799	0	7,799
Corporate Center	460	22	482	2,613	3,095
Total	**31,445**	**5,476**	**36,920**	**2,795**	**39,716**

1) Shares and other variable-rate securities (Jun 2017: EUR 4.2 million, Dec 2016: EUR 4.4 million) are not included.

					Dec 2016
		Note 8		Risk view	Segment report
in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)[1]	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,558	0	11,558	101	11,659
easygroup	4,436	0	4,436	22	4,458
DACH Corporates & Public Sector	7,580	210	7,790	22	7,812
International Business	5,392	242	5,634	0	5,634
Treasury Services & Markets	1,496	5,195	6,691	0	6,691
Corporate Center	359	32	392	3,098	3,489
Total	**30,821**	**5,680**	**36,501**	**3,242**	**39,743**

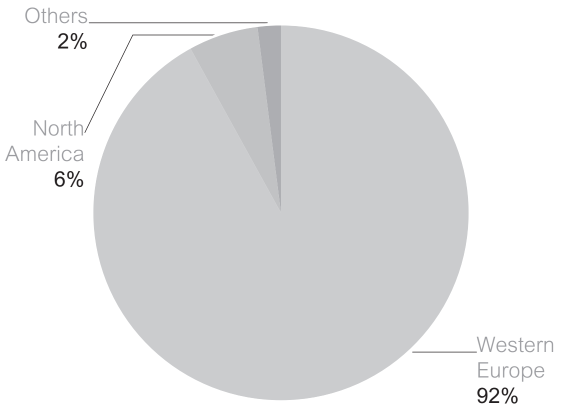
1) Shares and other variable-rate securities (Jun 2017: EUR 4.2 million, Dec 2016: EUR 4.4 million) are not included.

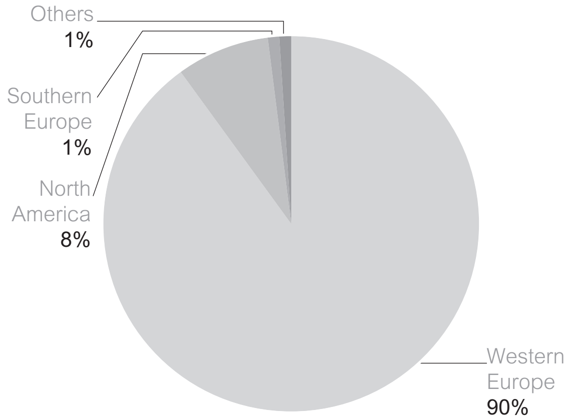
Geographical distribution of the loan and bond portfolio

The geographic 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 31.12.2016: 98%) of the loan portfolio[1] and 84% (as of 31.12.2016: 84%) of the bond portfolio[2] is located in Western Europe and North America.

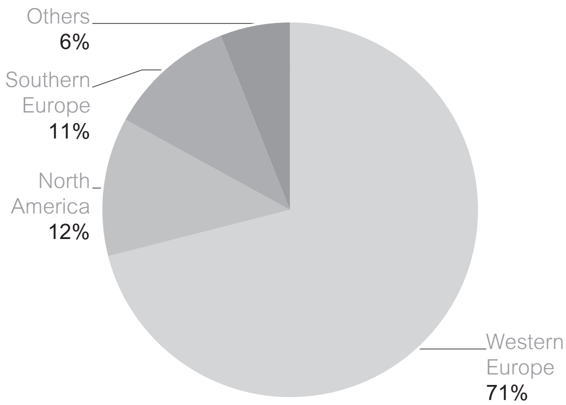
1) This includes Austria with 70% (Dec 2016: 67%), Great Britain with 10% (Dec 2016: 10%), the United States with 6% (Dec 2016: 8%), France with 5% (Dec 2016: 6%) and Germany with 3% (Dec 2016: 3%).
2) This includes Great Britain with 14% (Dec 2016: 14%), the United States with 12% (Dec 2016: 13%), France with 8% (Dec 2016: 8%), Austria with 7% (Dec 2016: 11%) and Germany with 2% (Dec 2016: 3%).

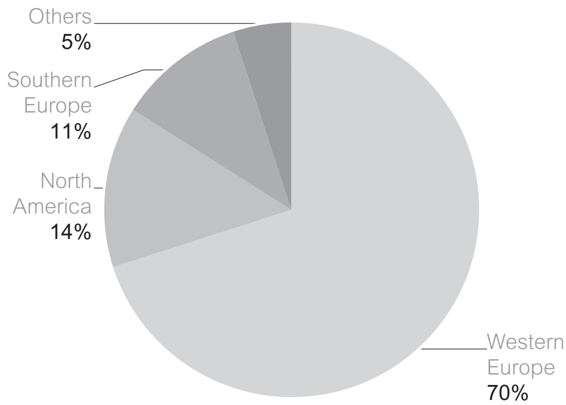
Geographical distribution of loans





Geographical distribution of bonds





Credit portfolio and bonds by currency

	Book value		Relative value	
in EUR million	**Jun 2017**	**Dec 2016**	**Jun 2017**	**Dec 2016**
EUR	30,022	28,698	81.3%	78.6%
GBP	2,735	2,970	7.4%	8.1%
USD	2,236	2,705	6.1%	7.4%
CHF	1,709	1,863	4.6%	5.1%
Others	218	265	0.6%	0.7%
Total	**36,920**	**36,501**	**100.0%**	**100.0%**

Impaired loans

Provisions are booked on loans for which the probability of full recovery is not fulfilled. 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[1)].

Manual impairment provision

In cases when exposures are restructured according to internal processes, which may include the extension of forbearance measures, an appropriate impairment test is performed. De-recognition is assessed after a detailed analysis on an individual basis and impairment provisions are formed manually.

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, the two further impairment provision types described in the Impaired loan section lead to the immediate default of the customer.

Automatic impairment provision

Loan-loss provisions are booked automatically in the core banking system based on defined standards in the case of overdue balances. This occurs when limits are continuously exceeded on current accounts, installments are continuously not paid on loans and/or when legal action is initiated.

General impairment provisions

A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on- and off-balance-sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 30 June 2017, the IBNR portfolio provision amounted to EUR 42.1 million (as of 31 December 2016: EUR 59.0 million).

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 or refinancing 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, or refinancing, may be granted. In this respect, strictly temporary measures – i.e. a reduction or postponement of as well as transfer to terms of interest only repayments – are in place. In exceptional cases, temporary or permanent reduction of interest rates may be granted. Depending on customer segments, a split of loan agreements or refinancing facilities may be accepted as viable measures.

Measures of forbearance or refinancing are instruments to ultimately reduce the existing risk with respect to debt claims. However, forbearance measures are by no means used to avoid or postpone the recognition of impairment or disguise the level of credit risk resulting from forborne assets.

By implementing forbearance measures, the Group supports clients in maintaining financial stability. One of the positive effects of forbearance is to assist clients on their way back to a sustainable financial situation. If the supporting measure is 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 loss was identified, a provision is booked following internal guidelines.

For reporting as well as internal risk management purposes, the Group implemented processes and methods according to regulatory standards[2)] in order to identify exposures for which forbearance or refinancing measures have been extended.

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

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

in EUR million	Book value		Relative value	
	Jun 2017	**Dec 2016**	**Jun 2017**	**Dec 2016**
Government	2,953	2,839	22.6%	21.1%
Real Estate	2,490	1,969	19.1%	14.7%
Public Sector	1,818	1,876	13.9%	14.0%
Portfolio	1,240	1,443	9.5%	10.8%
Services	781	801	6.0%	6.0%
B-2-C Products	448	578	3.4%	4.3%
Pharmaceuticals & Health Care	380	486	2.9%	3.6%
Gaming & Leisure	343	386	2.6%	2.9%
Automotive	291	362	2.2%	2.7%
Investment Funds	272	210	2.1%	1.6%
Retail – Food	259	303	2.0%	2.3%
Transport	217	278	1.7%	2.1%
Hotels	201	220	1.5%	1.6%
Commodity	192	223	1.5%	1.7%
Engineering and B-2-B	176	268	1.4%	2.0%
Wood & Paper	174	226	1.3%	1.7%
Social Housing	132	146	1.0%	1.1%
Telecommunication	114	188	0.9%	1.4%
Chemicals	103	107	0.8%	0.8%
Construction & Building Materials	88	91	0.7%	0.7%
Beverages, Food & Tobacco	73	76	0.6%	0.6%
Leasing	67	58	0.5%	0.4%
Banks	64	135	0.5%	1.0%
Media	49	57	0.4%	0.4%
Utilities	47	49	0.4%	0.4%
NGO	46	49	0.4%	0.4%
Insurance	29	0	0.2%	0.0%
Mining & Metals	0	1	0.0%	0.0%
Total	**13,049**	**13,424**	**100.0%**	**100.0%**

19 | 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 P.S.K. 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.

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 2017, the average value-at-risk of the trading book was measured at minus EUR 0.56 million (Jan–Jun 2016 average: minus EUR 0.55 million) and the value-at-risk as of 30 June 2017 was measured at minus EUR 0.38 million (30 December 2016: minus EUR 0.74 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

20 | 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). Risk measurement is performed by the Market & Liquidity Risk Controlling division.

Liquidity management which comprises 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 Services & 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 2017 was characterized by a very solid liquidity position by stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Additionally, the Bank once again underpinned its capital market strength by successfully placing an international EUR 500 million public sector covered bond, the first Austrian public sector covered bond since 2014. Furthermore, BAWAG P.S.K. participated with EUR 2 billion in the final call of the ECB's TLTRO activities.

21 | Operational risk

The Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements 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 the 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.

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

In addition to recipient-oriented reporting, the risk organization applies a risk control self-assessment (RCSA) concept in 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, 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.

A clear organizational structure and authorization levels form the basis of OpRisk governance. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls) are in place to manage the Group's OpRisk.

DEFINITIONS

Common Equity Tier 1 capital (CET1)	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Common Equity Tier 1 ratio	Common Equity Tier 1 capital (CET1) / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
IFRS equity	Equity attributable to the owners of the parent; excluding minorities
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets
Leverage ratio	Common Equity Tier 1 capital (CET1) / total exposure (calculation according to CRR, based on BAWAG Holding Group); as of September 2016, the total exposure calculation was adapted from three-month averages to an end-of-period figure in line with changed regulatory requirements
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR, based on Promontoria Sacher Holding N.V. Group)
Net interest margin	Net interest income / average interest-bearing assets; as of year-end 2016, the ratio's denominator was changed from average total assets to average interest-bearing assets and applied retroactively
Net profit	Profit after tax attributable to owners of the parent
NPL ratio	Non-performing loans (NPLs) / exposure; as of June 2017, the ratio's denominator was adapted from loans and receivables incl. provisions to exposure in line with changed regulatory requirements and applied retroactively
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses
Operating profit	Operating income less operating expenses and regulatory charges
Return on equity	Net profit / average IFRS equity
Return on equity (@12% CET1)	Return on equity calculated at a fully loaded CET1 ratio of 12%
Return on tangible equity	Net profit / average IFRS tangible equity
Return on tangible equity (@12% CET1)	Return on tangible equity calculated at a fully loaded CET1 ratio of 12%
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Holding Group, fully loaded)
Risk costs / loans and receivables	Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (including provisions)
RWA density	Risk-weighted assets / total assets
Total capital	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Total capital ratio	Total capital / risk-weighted assets

REVIEW REPORT

REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of BAWAG Holding GmbH, Vienna for the period from 1 January 2017 to 30 June 2017. These condensed interim consolidated financial statements comprise the condensed consolidated statement of financial position as of 30 June 2017 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 2017 to 30 June 2017 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 § 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 2017

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, 2 August 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

Audited Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU as of and for the financial year ended December 31, 2016

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

CONTENTS

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	2016	2015
Interest income		1,024.4	1,051.3
Interest expense		(297.7)	(339.2)
Dividend income		3.3	10.2
Net interest income	**[2]**	**730.0**	**722.3**
Fee and commission income		276.3	292.3
Fee and commission expense		(83.4)	(106.4)
Net fee and commission income	**[3]**	**192.9**	**185.9**
Gains and losses on financial assets and liabilities	[4]	19.1	64.8
Other operating income and expenses	[5]	4.7	(36.4)
Administrative expenses	[6]	(405.4)	(432.9)
Depreciation and amortization on tangible and intangible non-current assets	[7]	(36.2)	(38.9)
Risk costs	[8]	(42.7)	(45.8)
Share of the profit or loss of associates accounted for using the equity method	[9]	8.0	(0.5)
Profit before tax		**470.4**	**418.5**
Income taxes	[10]	13.4	(24.1)
Profit after tax		**483.8**	**394.4**
Thereof attributable to non-controlling interests		0.2	0.0
Thereof attributable to owners of the parent		**483.6**	**394.4**

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges. For further details please refer to Note 5. The item Administrative expenses includes regulatory charges in the amount of EUR 2.3 million for 2016 as well. However, the Bank's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR million	2016	2015
Profit after tax	**483.8**	**394.4**
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plans	(1.9)	16.8
Income tax on items that will not be reclassified	0.5	(4.2)
Total items that will not be reclassified to profit or loss	**(1.4)**	**12.6**
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge reserve	8.4	–
thereof transferred to profit (-) or loss (+)	(4.1)	–
Available-for-sale reserve	2.9	(92.5)
thereof transferred to profit (-) or loss (+)	(15.9)	(61.2)
Share of other comprehensive income of associates accounted for using the equity method	(2.3)	2.2
Income tax relating to items that may be reclassified	(4.5)	24.4
Total items that may be reclassified subsequently to profit or loss	**4.5**	**(65.9)**
Other comprehensive income	**3.1**	**(53.3)**
Total comprehensive income, net of tax	**486.9**	**341.1**
Thereof attributable to non-controlling interests	0.2	0.0
Thereof attributable to owners of the parent	**486.7**	**341.1**

The increase of the Available-for-sale-reserve is mainly due to the valuation of securities partly compensated by the transfer to profit or loss due to sales of securities. For further details, please refer to Note 32 Equity.

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	31.12.2016	31.12.2015
Cash reserves	[11]	1,020	809
Financial assets designated at fair value through profit or loss	[12]	202	303
Available-for-sale financial assets	[13]	3,209	2,745
Held-to-maturity investments	[14]	2,353	2,290
Financial assets held for trading	[15]	652	950
Loans and receivables	[16]	30,821	27,396
Customers		28,494	24,713
Securities		692	973
Credit institutions		1,635	1,710
Hedging derivatives	[31]	677	469
Property, plant and equipment	[19]	53	59
Investment properties	[19]	3	4
Goodwill	[20]	58	58
Brand name and customer relationships	[20]	174	168
Software and other intangible assets	[20]	128	103
Tax assets for current taxes		10	20
Tax assets for deferred taxes	[21]	203	190
Associates recognized at equity	[50]	45	43
Other assets	[22]	135	92
Assets in disposal groups		–	9
Total assets		**39,743**	**35,708**

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 33.

Total liabilities and equity

in EUR million	[Notes]	31.12.2016	31.12.2015
Total liabilities			
Financial liabilities designated at fair value through profit or loss	[23]	1,115	1,269
Financial liabilities held for trading	[24]	617	1,071
Financial liabilities at amortized cost	[25]	32,962	28,514
Customers		25,998	21,692
Issued bonds, subordinated and supplementary capital		4,900	3,236
Credit institutions		2,064	3,586
Financial liabilities associated with transferred assets	[40]	300	621
Valuation adjustment on interest rate risk hedged portfolios		223	169
Hedging derivatives	[31]	260	106
Provisions	[29]	404	419
Tax liabilities for current taxes		19	6
Tax liabilities for deferred taxes	[21]	27	–
Other obligations	[30]	680	576
Obligations in disposal groups		–	0
Total equity	**[32]**	**3,136**	**2,957**
Equity attributable to the owners of the parent		3,134	2,956
Non-controlling interests		2	1
Total liabilities and equity		**39,743**	**35,708**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2015	**100.0**	**1,086.4**	**1,410.1**	**107.0**	**–**	**(84.4)**	**2,619.1**	**–**	**2,619.1**
Transactions with owners	–	8.0	–	–	–	–	8.0	–	8.0
Owner's contribution	–	8.0	–	–	–	–	8.0	–	8.0
Dividends	–	–	(12.0)	–	–	–	(12.0)	–	(12.0)
Change in scope of consolidation	–	–	–	–	–	–	–	1.4	1.4
Total comprehensive income	–	–	394.4	(65.9)	–	12.6	341.1		341.1
Balance as of 31.12.2015 = 01.01.2016	**100.0**	**1,094.4**	**1,792.5**	**41.1**	**0.0**	**(71.8)**	**2,956.2**	**1.4**	**2,957.6**
Transactions with owners	–	–	–	–	–	–	–	–	–
Owner's contribution	–	–	–	–	–	–	–	–	–
Dividends	–	–	(309.0)	–	–	–	(309.0)	–	(309.0)
Change in scope of consolidation	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Total comprehensive income	–	–	483.6	(1.8)	6.3	(1.4)	486.7	0.2	486.9
Balance as of 31.12.2016	**100.0**	**1,094.4**	**1,967.1**	**39.0**	**6.3**	**(73.2)**	**3,133.6**	**1.6**	**3,135.2**

For further details, please refer to Note 32 Equity.

CASH FLOW STATEMENT

in EUR million	[Notes]	2016	2015
I. Profit (after tax, before non-controlling interests)	Profit or loss statement	**484**	**394**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[7], [8]	49	74
Changes in provisions	[29]	20	(89)
Changes in other non-cash items		(71)	40
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[4], [5]	(33)	(123)
Share of profit of equity-accounted investees, net of tax	Profit or loss statement	(8)	1
Other adjustments (mainly received interest less paid interest)		(780)	(661)
Subtotal		**(340)**	**(365)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Loans and advances to customers and credit institutions		222	(1,413)
Other financial assets (not including investing activities)		189	403
Other assets		(119)	80
Deposits from customers and banks		(327)	1,747
Other financial liabilities (not including financing activities)		725	(1,349)
Other obligations		5	(60)
Interest receipts		1,066	1,065
Dividend receipts	Profit or loss statement	3	10
Dividends from equity-accounted investees		3	3
Interest paid		(298)	(404)
II. Net cash from operating activities		**1,129**	**(283)**
Cash receipts from sales of			
Financial investments		1,163	1,918
Tangible and intangible non-current assets		2	24
Cash paid for			
Financial investments		(1,694)	(1,129)
Tangible and intangible non-current assets	[19], [20]	(54)	(35)
Cash receipts from sales of subsidiaries	Cash flow from the sale of subsidiaries	91	105
Acquisition of subsidiaries, net of cash acquired	[37]	(83)	(30)
Other changes		–	–
III.Net cash used in investing activities		**(575)**	**853**
Capital contributions	Statement of changes in equity	–	–
Redemption of participation capital	Statement of changes in equity	–	–
Dividends paid	Statement of changes in equity	(309)	(12)
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)		–	2
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)		(34)	(435)
IV. Net cash from financing activities		**(343)**	**(445)**
Cash and cash equivalents at end of previous period		**809**	**684**
Net cash from operating activities		**1,129**	**(283)**
Net cash used in investing activities		**(575)**	**853**
Net cash from financing activities		**(343)**	**(445)**
Cash and cash equivalents at end of period		**1,020**	**809**

The Cash Flow Statement provides information about the current state and development of the Group's cash and cash equivalents as of the reporting date. It shows inflows and outflows of cash broken down by operational activities, investing activities and financing activities. The amount of cash and cash equivalents reported comprises cash on hand and balances at central banks. The Cash Flow Statement is of low significance for BAWAG P.S.K. It is not a substitute for liquidity or financial planning and is not used as a management tool.

Cash flow from the sale of subsidiaries

In January 2016, BAWAG P.S.K. sold its shares in BAWAG Malta Bank Ltd. after having received all regulatory approvals.

The profit from the sale is shown in the line item Gains and losses on financial assets and liabilities.

in EUR million	**2016**
Sales proceeds	**91**
Assets sold	**87**
Financial assets	9
Other assets	78
Debts sold	**–**
Net assets sold	87
Profit from the sale	4
Sales proceeds	**91**
Cash and cash equivalents contained in the assets sold	–
Proceeds from the sale	**91**

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K. AG), a subsidiary of BAWAG Holding GmbH, is an Austrian bank, operating predominantly in Austria with additional activities in selected international markets. The registered office of BAWAG Holding GmbH is located at Wiesingerstraße 4, 1010 Vienna.

The consolidated financial statements were prepared applying section 59a BWG, according to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and in accordance with the provisions of the standards (IFRS/IAS) published by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC/SIC) as applicable on the reporting date as adopted by the EU and therefore mandatory with respect to the consolidated financial statements as of 31 December 2016.

These consolidated financial statements for BAWAG P.S.K. according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2016. All material associates are accounted for using the equity method.

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

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

We have maintained the accounting and valuation methods that were applied in the consolidated financial statements as of 31 December 2015.

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

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

Scope of Consolidation and Consolidation Principles

The scope of consolidation includes all direct and indirect material equity investments of BAWAG P.S.K.

As of 31 December 2016, the consolidated financial statements included 36 (2015: 33) fully consolidated companies and 2 (2015: 2) companies that are accounted for using the equity method. In the interest of materiality, the criteria for inclusion are both the amount of an entity's assets and its relative contribution to the Group's consolidated profit. All non-consolidated subsidiaries had only a minor influence on the Group's assets, financial position and the results of its operations. Note 48 List of consolidated subsidiaries contains a list of all fully consolidated subsidiaries and associates accounted for using the equity method.

The carrying amount of the associates that are not accounted for using the equity method totaled EUR 19 million (2015: EUR 19 million) on 31 December 2016. Controlled companies with a carrying amount of EUR 22 million (2015: EUR 22 million) were not consolidated because they did not have a material effect on the Group's assets, financial position or the results of its operations.

Further details on the scope of consolidation and major changes in the Group's holdings can be found in Notes 48 and 49.

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

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

Capitalized goodwill in the amount of EUR 58 million (2015: EUR 58 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

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

All non-consolidated equity instruments are measured according to IAS 39 and categorized as available-for-sale financial assets.

Financial Instruments

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

a) Held-to-Maturity Investments

This category includes all financial instruments with fixed or determinable payments and fixed maturity that are intended to be held to maturity. If securities are assigned to this category, BAWAG P.S.K. has the positive intention and the ability to hold the instruments to maturity.

Held-to-maturity investments are carried at amortized cost. If at the end of a reporting period there is objective evidence for impairment, the recoverable amount is calculated and an impairment is recognized if this amount is lower than the carrying amount. The recoverable amount is calculated by discounting the expected future cash flows with the original effective interest rate of the financial instrument. If this impairment decreases in subsequent periods, a write-up is recognized up to the amortized cost valid at that time.

Premiums and discounts on securities classified as held-to-maturity investments are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against interest income from the same securities.

b) Financial Assets and Liabilities Recognized at Fair Value through Profit or Loss

Held for trading

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

Financial assets and liabilities designated at fair value through profit or loss

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

- To avoid an accounting mismatch
  - For fixed-income own issues, securities and loans whose fair value on the date of acquisition has been hedged with interest rate derivatives;
  - Investment products whose fair value changes have been hedged with derivatives
- Management on a fair value basis
  - Certain securities and loans are managed on a fair value basis by the Strategic Asset Liability Committee, which also decides on the extent of the open interest rate risk exposures. The Managing Board is informed about these positions regularly.
- Presence of embedded derivatives
  - Structured financial instruments with embedded derivatives

c) Loans and Receivables

Loans and Receivables are measured on the Statement of Financial Position at amortized cost inclusive of deferred interest following deduction of impairment allowances.

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

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

Please see the Loan Loss Provisions section for information about the formation of provisions.

d) Available-for-Sale Financial Assets
This category covers financial assets which are not classified as

– Loans and receivables;

– Held-to-maturity investments; or

– Financial assets recognized at fair value through profit or loss.

In addition to the securities that BAWAG P.S.K. has assigned to the category Available-for-sale financial assets, this item also includes shares in non-consolidated subsidiaries.

The Available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in other comprehensive income (AFS reserve) until the asset is sold, repaid or impaired. Impairments are recognized in the Profit or Loss Statement under Risk costs – Impairment provisions for financial assets. BAWAG P.S.K. continuously compares the redemption amount with the carrying amount of the available-for-sale financial assets to detect any possible impairments. Potential impairments are reviewed and – in case of materiality – approved by the responsible Risk Division. When the reasons for the impairment of a debt instrument no longer apply, these impairments are reversed through profit or loss up to the amount of amortized cost. Any reversal of impairment for equity instruments recognized at fair value is recognized directly in other comprehensive income.

If a fair value for unlisted equity instruments cannot be measured reliably, it is measured at cost less necessary impairments. Impairments are not reversed.

Debt instruments are reviewed individually for impairment if objective indications of a loss (such as delayed payment) are incurred after the date of initial recognition that would lead to a reduction in the cash flow arising from them. An impairment exists when the net present value of the expected cash flows is lower than the carrying value of the financial instrument concerned.

Equity instruments are written down if their fair value is either significantly lower (more than 20%) than their historic cost or has been below historic cost for a considerable period (at least nine months). All not publicly traded equity investments are tested for impairment according to IAS 39.66, provided that a preliminary examination has not ruled out impairment indicators.

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

e) Financial Liabilities
In accordance with IAS 39, financial liabilities

– not held for trading or

– designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

Reclassifications

Reclassification of Financial Assets into the Category Loans and Receivables
Financial assets can be reclassified from the category available-for-sale to the category of loans and receivables when

– the financial asset meets the requirements for inclusion in the category loans and receivables according to IAS 39 on the date of reclassification and on the date of initial recognition; and

– the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets for the foreseeable future.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category loans and receivables.

When available-for-sale assets are reclassified into loans and receivables, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Risk costs – Impairment provisions for financial assets.

Details are presented in Note 16.

Reclassification of Financial Assets into the Category Held-to-Maturity Investments

Financial assets can be reclassified from the category available-for-sale to the category of held-to-maturity investments when the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets until maturity.

In addition, available-for-sale financial assets may be reclassified to held-to-maturity investments after the expiration of the two-year retention period that is required if more than an insignificant portion of the held-to-maturity investments is sold or reclassified.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category held-to-maturity investments.

When available-for-sale assets are reclassified into held-to-maturity investments, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Risk costs – Impairment provisions for financial assets.

Reclassification of Financial Assets into the Category Available-for-Sale

IAS 39 and its interpretations state that financial instruments that are classified as loans and receivables can be reclassified as available-for-sale assets when the financial instrument subsequent to its initial classification becomes traded in an active market and therefore the definition of loans and receivables is no longer met.

When an asset is reclassified as available-for-sale, it must be remeasured at its fair value, and any difference between its carrying amount and its fair value must be recognized in Other comprehensive income (AFS reserve).

Hedge Accounting

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

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

BAWAG P.S.K. uses fair value hedge accounting for effective hedging relationships that reduce market risk.

Micro Fair Value Hedge

In a micro fair value hedge, a financial asset or financial liability or a group of similar financial assets or financial liabilities is hedged against changes in its fair value. Changes in the value of the hedged item and the hedging instrument are recognized in the Profit or Loss Statement in the line item Gains and losses on financial assets and liabilities in the same period.

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

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

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

Portfolio Fair Value Hedge

BAWAG P.S.K. applies fair value hedge accounting for a portfolio hedge of interest rate risk. In its accounts, the Bank has identified sight deposits in Euros as a portfolio that is to be protected against interest rate risks. These are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG P.S.K. determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge. Additions and withdrawals are initially allocated to the non-designated portion of the identified portfolio using the bottom layer approach. For this, BAWAG P.S.K. applies the EU carve-out for IAS 39, which allows sight deposits and similar instruments to be designated as part of a hedging relationship on the basis of the expected withdrawal and due dates. The EU carve-out for IAS 39 also allows the application of the bottom layer approach.

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

Cash Flow Hedge

Since January 2016, BAWAG P.S.K. has applied cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

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

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

In other operating 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 2016 fair value gains in the amount of EUR 8.4 million would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG P.S.K. had not applied cash flow hedge accounting.

Loan Loss Provisions

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

– there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");

– the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets and

– a reliable estimate of the loss amount can be made.

The loan loss provisions cover provisions for loan defaults or counterparty risks and are formed as individual and general provisions on the basis of past experience. The loan loss provisions from lending are netted off against the corresponding receivables on the Statement of Financial Position. Provisions for off-balance-sheet loans are reported as provisions.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counter-party relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counter-party risks is based on expected future recoveries in accordance with the risk analysts' estimates. Provisions for counterparty risks that were not individually significant were accounted for generally, on a percentage basis, with regard to the amounts overdue and based on our historical loss experience.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

A loan loss provision is accounted for on a portfolio basis in accordance with IAS 39.AG89 for losses incurred but not reported as of the reporting date. The portfolio loan loss provision is recognized for on- and off-balance-sheet receivables of the Group's loan portfolio including securities but excluding items recognized at fair value. For loans backed by a repayment vehicle, which mainly include loans in foreign currencies, a provision based on funding gaps is considered as well. The amount of the IBNR is calculated on the basis of the regulatory Expected Loss Model. The actual loss that has been incurred is extrapolated from the expected loss, taking into account the duration from occurrence to detection of the loss (the loss identification period – LIP). For this reason, financial assets are grouped on the basis of similar credit risk characteristics (IAS 39.AG87). The classification is based on the categories of claims against Banks, Corporates, Sovereigns and Retail. LIP is calculated for each segment and is based on the average time until identification of the 90 days overdue status based on expected cash inflows according to the repayment plans. LIP is calculated as the exposure-weighted average in months. Depending on the risk monitoring process, a shorter LIP than calculated based on expected cash flows is anticipated.

Financial Guarantees

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

In the ordinary course of business, BAWAG P.S.K. provides financial guarantees, consisting of various types of letters of credit and guarantees. Financial guarantees are initially measured at fair value. Subsequent to initial recognition, the financial guarantee contract is reviewed in order to determine whether a provision according to IAS 37 is required.

If BAWAG P.S.K. is a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Methods for Determining the Fair Value of Financial Instruments

Derivatives

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in Note 33. Some basic information is presented here:

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

For positions in the trading book, the closing costs of the positions (bid/ask spreads) on a net basis are calculated and booked on a regular basis.

The total value of an interest rate swap is derived from the present values of its fixed and variable rate legs. Similarly, the total value of a cross currency swap is derived from the present values of the two cash flows expressed in terms of the functional currency of the Group entity.

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

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

BAWAG P.S.K. determines a credit (CVA) or debt value adjustment (DVA) for the credit risk of OTC derivatives. If available, liquid credit default swap (CDS) spreads are generally used to determine the probability of default (PD) and the recovery rate (REC). If this is not possible, equivalent segments of the CDS market are used.

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

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

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

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

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

In the case of the close-out of a derivative transaction with a customer, the type of claim changes for BAWAG P.S.K. Before the contract is terminated, the asset is a derivative, while after the contract is closed out, the asset is a contractual claim whose value no longer changes depending on market parameters. For this reason, the claim no longer satisfies the definition of a derivative according to IAS 39.9.

In the event of the early termination of a derivative transaction, the variability of the payment flows in terms of amount and time of occurrence are materially changed by the close-out, and the original derivative is replaced with a new asset. This new asset is recognized at its fair value according to IAS 39.43. The fair value corresponds to the carrying amount of the derivative at the time that the agreement is terminated, including any valuation adjustments applied up to the time of termination. A claim arising from the termination of the agreement meets the criteria in IAS 39.9 for categorization under loans and receivables.

This approach was chosen following IAS 39.40 and IAS 39.21, since IAS 39 contains no explicit rules for when a financial instrument first fulfills the characteristics of a derivative and then no longer exhibits these characteristics at a later time. According to IAS 8.10 to 8.12, such gaps in the standards must be closed by applying a similar provision in the IFRS and taking the framework into account.

The method described above was especially important in the transaction with the City of Linz in 2011.

Credit-Linked Notes

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

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

Measurement for Asset-Based Investments

As of 31 December 2016 and 31 December 2015, there is no CLO portfolio.

Transfers of Financial Instruments

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

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

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

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

Conversely, under agreements to resell, known as "reverse repos," financial assets are acquired for a consideration while at the same time committing to their future resale. Cash outflows under reverse repos are recorded within trading assets.

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the loan. Securities lent to counterparties are accounted for in the same way as repos: They are retained in the Group's financial statements and are measured in accordance with IAS 39. Securities lending and borrowing transactions are generally collateralized. Collateral furnished by the securities borrower continues to be recorded in the borrower's financial statements.

Intangible Non-Current Assets, Property, Plant and Equipment

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

Intangible non-current assets with an indefinite useful life are recognized at cost less impairments. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 2% and 2.5%, while other furniture and equipment are depreciated at annual rates between 5% and 33.3%. Purchased and self-produced software, and other intangible assets and rights (other than goodwill and brand name) are amortized at annual rates between 4.63% and 33.3%. Customer relationships are amortized over approximately 33 years (2015: 33 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 20.

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

Investment Properties

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

Land and buildings held for investment purposes (investment property) are measured at cost less straight-line depreciation for buildings and less impairments (IAS 40). Depreciation ranges between 2% and 2.5% per year. In addition to reviewing the method of depreciation and useful lives, impairment tests are also performed as of each reporting date.

Impairment Testing

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

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (1.0%) thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. The discount rate was estimated based on average equity returns in the sector and amounts to 7.44%.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36. All not publicly traded equity investments were tested for impairment according to IAS 39.66, provided that a preliminary examination did not rule out impairment indicators.

To determine the value in use of the CGU, the present value of the projected pre-tax profits reduced by the nominal tax rate was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the CGU in question. The pre-tax discount rate was derived from the planned pre-tax profits and the above-mentioned valuation result, and served as a target value.

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

As a rule, the planning horizon used for valuation purposes is five years. The long-term growth rates used in the calculation are 1.0%, applying the going concern principle.

The pre-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. As of 31 December 2016, the following parameters are used:

– The risk-free rate (1.04%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.

– The source for the country-specific market risk premium (6.88% for Austria) is the website Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose working group "Business Valuation" sets a range from 5.5% to 7%. A market risk premium of 6.88% was chosen for Austria.

– The applied beta factor for banks and financial service companies (0.93) is the two-year weekly average beta of ten banks listed on European stock exchanges with retail as their core business. Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 qualify for the peer group. The applied beta factor for non-banks is 1.0, which represents a specific parameter and no general market risk.

Based on the aforementioned assumptions, the value in use of the CGU or equity investment was calculated for the year under review in accordance with IAS 36. Value in use represents the present value of the estimated future cash flows expected from a cash generating unit or a single entity.

The Bank's interest in BAWAG P.S.K. Versicherung Aktiengesellschaft is assessed using the embedded value and an estimation of the future value.

In addition, intangible and tangible assets are tested at the reporting date to determine whether or not there is evidence that they are impaired. If there is evidence for impairment, the recoverable amount is calculated for the asset. This is the higher of the value in use or the net selling price. If the recoverable amount is lower than the carrying amount, an impairment loss in the amount of the difference is recognized according to IAS 36. As of 31 December 2016, no impairments of intangible and tangible assets were accounted for.

In the case of real estate companies and own real estate, current estimated market values of the properties are taken into account. External appraisals are renewed every three years at the latest.

Leasing

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

BAWAG P.S.K. as Lessor

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

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

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

BAWAG P.S.K. as Lessee

Expenditure on operating leases is recorded on a straight-line basis over the life of the lease agreement and reported under operating expenses.

Finance leases where BAWAG P.S.K. is a lessee are of minor significance.

Income Taxes and Deferred Taxes

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

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

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

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2016, unused tax losses amounted to EUR 381 million (2015: EUR 361 million) at the level of BAWAG Holding, EUR 594 million (2015: EUR 868 million) at the level of BAWAG P.S.K., EUR 0 million (2015: EUR 0 million) at the level of members of the tax group included in the consolidated financial statements and EUR 5 million (2015: EUR 66 million) at the level of other companies included in the consolidated financial statements, hence a total of EUR 980 million (2015: EUR 1,295 million). Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

The utilizability of unused tax losses and deferred tax assets by BAWAG Holding was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to EUR 980 million (2015: EUR 868 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately EUR 245 million (2015: EUR 217 million) are recognized within BAWAG Holding Group. If the forecasted taxable results varied by 10% compared to management estimations, deferred tax assets would remain unchanged (2015: would remain unchanged) if results improve and would remain unchanged (2015: would remain unchanged) if forecasted results turn out to be lower than expected.

A tax group pursuant to section 9 KStG was parented by BAWAG Holding GmbH in the financial year. On 31 December 2016, the tax group consisted of the group parent and 21 domestic members, both consolidated and non-consolidated in these financial statements (previous year: 19 members). A tax collection agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole. The payable tax is allocated to each group member with a positive tax result on the basis of its proportionate share of the group's tax result. An internal tax loss carryforward is taken into account for tax losses allocated to the group parent. If the head of the tax group has to pay a minimum corporate tax, the head of the tax group is able to burden the members of the tax group with a proportion of the minimum corporate tax following the principle of tax causation.

In the financial year 2014, a settlement agreement to the group and tax compensation agreement was concluded between the group parent and each tax group member. This agreement stipulated that an interim settlement of the tax equalization is to be made for the financial years 2010 to 2014, with all tax contributions of these financial years being regarded as offset.

In the financial year 2016, no tax allocations were allocated to members of the tax group included in the consolidated financial statements due to a negative taxable group result (2015: EUR 3 million).

A final settlement for uncredited tax losses must be effected upon dissolution of the tax group or when a member entity leaves the group. As of 31 December 2016, the exit of BAWAG Holding from the tax group and the exit of all other group members, with the exception of the new members in 2015 and 2016, would not result in a corporate income tax back payment as of 31 December 2016 because the minimum period of three years as required by section 9 paragraph 10 KStG was already fulfilled. The new group members who entered the tax group in 2015 and 2016 would incur a corporate income tax back payment in the amount of EUR 5 million (2015: EUR 0 million).

Provisions for Employee Benefits

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

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

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2016	2015
Interest rate	1.75% p.a.	2.05% p.a.
Wage growth	1.50% p.a.	1.75% p.a.
Fluctuation discount	0%–3.74% p.a.	0%–3.22% p.a.

Parameters for severance payments and anniversary bonuses

	2016	2015
Interest rate	1.75% p.a.	2.05% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	2.80% p.a.	2.80% p.a.
Fluctuation discount severance payments	0%–2.14% p.a.	0%–1.75% p.a.
Fluctuation discount anniversary bonuses	0%–9.75% p.a.	0%–5.07% p.a.
Retirement age	57–65 years[1)]	57–65 years[1)]

1) The earliest possible individual retirement age as per ASVG was assumed.

The interest rate used in 2016 has been changed from 2.05% in the previous year to 1.75%.

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

The existing post-employment benefit plans in BAWAG P.S.K. that are financed entirely through provisions because they are defined benefit obligations pertain primarily to post-employment benefit rights and future rights of employees of BAWAG P.S.K. AG. The allocated assets disclosed by the pension fund set up for certain beneficiaries are set off against the determined amounts of provisions for post-employment benefits.

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

The post-employment benefit rights of the majority of employees are covered by BONUS Pensionskassen AG and Bundespensionskasse AG (defined contribution plans). The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations.

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation.

Contingent Liabilities and Unused Lines of Credit

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

Equity

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

Revenue Recognition

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

Interest Income and Interest Expense

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

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Interest income and interest expense are recognized on an accrual basis.

Fee and Commission Income and Expense
This item consists mainly of income from and expenses for payment transfers, the securities and custody business, lending and payments to Oesterreichische Post AG for the use of its distribution network. Income and expenses are recognized on an accrual basis.

Gains and Losses on Financial Assets and Liabilities
This item consists mainly of the valuations and sales gains or losses of our investment, sales gains and losses from non-performing loans and issued securities and the result from trading in securities and derivatives. Moreover, hedging inefficiencies and foreign exchange differences are shown within this position.

Other Operating Income and Expenses
The other operating result reflects all other income and expenses not directly attributable to ordinary activities, such as results on the sale of property. In addition, the other operating result encompasses expenses for other taxes and regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the bank resolution fund), income from the release of other provisions and the reimbursement of expenses to customers as well as consolidation results from business combinations.

Administrative Expenses
General administrative expenses represent personnel and other administrative expenses accrued in the reporting period.

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

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill and non-consolidated equity investments.

Net Gains or Losses on Financial Instruments

Net gains or losses on financial instruments include fair value measurements recognized in the income statement, impairments, impairment reversals, gains realized on disposal and subsequent recoveries on written-down financial instruments classified in the respective IAS 39 categories. The components are detailed for each IAS 39 category in the notes on net interest income, gains and losses on financial assets and liabilities, and risk costs.

Latitude of Judgment and Uncertainty of Estimates

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

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

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 1 Accounting policies and in Note 33 Fair value.

Assessments as to whether or not cash generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. Details on the impairment test and the analysis of uncertainties surrounding the estimation of goodwill are set out in Note 1 Accounting policies and Note 20 Goodwill, Brand name and customer relationships and Software and other intangible assets.

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. The Group regularly reevaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 1 Accounting policies and in Note 21 Net deferred tax assets and liabilities on Statement of Financial Position.

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

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

– assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business

– recognition of provisions for uncertain liabilities

– assessments of legal risks and outcome of legal proceedings

Latitude of Judgment and Uncertainty of Estimates – City of Linz

Uncertainties in estimations also apply to the claim of BAWAG P.S.K. against the City of Linz. On 12 February 2007, the City of Linz and BAWAG P.S.K. concluded a forward financial transaction. This transaction was intended by the City of Linz to optimize a CHF loan.

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

The City of Linz filed a lawsuit against BAWAG P.S.K. at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling EUR 24.2 million at the exchange rate at that time). BAWAG P.S.K. filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The court combined the two suits. The first hearings were held in the spring of 2013. In March 2015, the court mandated two experts to prepare an expert opinion assessing several issues relating to the derivative transaction. The expert opinion was submitted to the court in the summer of 2016 and discussed with the experts within the framework of a hearing on 9 December 2016. The expert opinion does not provide all the answers required by the court for its legal assessment of the facts. Currently, a mandate for a supplementary expert opinion is being prepared by the court. BAWAG P.S.K.'s strong legal position remains unchanged and the Bank is well prepared for the forthcoming court hearings. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgement is enforceable will take several years.

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

After the termination of the transaction, the derivative was derecognized and a receivable was recognized under Receivables from customers (classified under Loans and advances). We base our assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim.

No amounts are being disclosed in application of IAS 37.92 (protective provisions for information in the notes).

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2016 consolidated financial statements:

The amendments to IAS 1 *Disclosure Initiative (Amendments to IAS 1)* clarify that the materiality concept is applicable to all parts of an IFRS financial statement, especially the notes. Immaterial information should not be presented, even if a standard explicitly requires a specific disclosure. Furthermore, material information should not be aggregated with immaterial information. Additional subtotals can be added to the Statement of Financial Position and the Statement of Comprehensive Income if this is relevant for a better understanding of the net assets, financial position and earnings situation. Moreover, it is clarified that the share of other comprehensive income of associated or joint ventures accounted for using the equity method should be presented in aggregate as a single line item based on whether it will subsequently be reclassified to profit or loss or not. The amended IAS 1 had no major impact on the presentation of other comprehensive income on the consolidated financial statements of BAWAG P.S.K.

The amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* provide additional guidance on the methods permitted when calculating depreciation or amortization of property, plant and equipment and intangible assets. The clarification had no impact on the consolidated financial statements of BAWAG P.S.K.

The amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* bring bearer plants into the scope of IAS 16. The amendments are not applicable to the consolidated financial statements of BAWAG P.S.K.

The amendments to IAS 27 *Equity Method in Separate Financial Statements* reinstate the equity method as an accounting option in separate financial statements. IAS 27 is not applicable to the consolidated financial statements of BAWAG P.S.K.

In September 2016, the EU endorsed *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*. Issues which have arisen in the context of applying the consolidation exception for investment entities are addressed. The amendments are not applicable to the consolidated financial statements of BAWAG P.S.K.

The amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* clarify the accounting for acquisitions of an interest in a joint operation when the activity constitutes a business. The clarification had no impact on the consolidated financial statements of BAWAG P.S.K.

Annual Improvements to IFRSs 2012–2014 Cycle, which clarifies the following existing standards: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The clarifications had no impact on the consolidated financial statements of BAWAG P.S.K.

The following standards, amendments and interpretations to existing standards were approved by the International Accounting Standards Board (IASB) and endorsed by the EU but are not yet mandatory for the preparation of IFRS financial statements for the period ended 31 December 2016:

Already in July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value and fair value through other comprehensive income.

IFRS 9 will become mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

According to IFRS 7, in 2018 the notes of BAWAG P.S.K. Group will contain transitional tables reconciling financial assets and impairment allowances from IAS 39 to IFRS 9. It is not planned to disclose the IFRS 9 figures for the prior year.

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 for sale and 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. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Business Model Assessment
The Group made an assessment of business models for all segments and is currently setting up documentation including:

– policies and objectives for the portfolio

– how the performance of the portfolio is evaluated and reported to the Group's management

– the risks that affect the performance of the business model and how those risks are managed

Assessment Whether Contractual Cash Flows Are Solely Payments of Principal and Interest
The Group analyzed its existing loan portfolio and set up a checklist for SPPI criteria. The Group is currently implementing or adjusting relevant software tools for IFRS 9-compliant reporting. Internal processes are being defined and in-house training of relevant divisions is being performed.

Financial Liabilities
The classification and measurement requirements for financial liabilities are only slightly changed 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.

Modifications

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

The Group is currently evaluating different software solutions for the implementation of an automated treatment of modifications.

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 were 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.

The Group currently expects no major impacts on the consolidated financial statements resulting from IFRS 9 hedge accounting and will continue to apply the macro fair value hedge accounting model for interest rate risk according to IAS 39. IFRS 9 macro hedge accounting provisions will be evaluated after finalization of the respective requirements by IASB.

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 applied methodology is based on the standard-setting document "IFRS 9 Financial Instruments (July 2014)"[1]. Since this document is formulated in a very general manner (with respect to the model requirements), the following documents, which are more detailed and contain further principles for modelling IFRS 9-compliant lifetime expected loss, are also being taken into account as input for the methodology:

– Global Public Policy Committee (June 2016): "The implementation of the IFRS 9 impairment requirements by banks"

– Basel Committee on Banking Supervision (December 2015): "Guidance on credit risk and accounting for ECL"

– European Banking Authority (July 2016). "Draft guidelines on credit institutions' credit risk management practices and accounting for expected credit losses"

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 for different products.

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 and a firm-value based approach ("Peridery approach") PD are used. For each relevant business segment, a separate model was developed to forecast the lifetime PDs by considering forecasts of macroeconomic factors. An initial validation ("back testing") was performed for the models of the main business segments in order to quantify the main impact of life time expected loss. For 2017 a complete validation process is planned in parallel to the current regulation.

The decision as to whether a financial instrument is assigned to stage 1 ("unchanged credit quality") or stage 2 ("significantly deteriorated credit quality") is based on quantitative transfer criteria as well as on qualitative factors. As quantitative criteria, a relative (ratio of relevant life time PDs) and an absolute (difference of relevant life time PDs) criterion are considered. For investment grade ratings, the absolute transfer criterion is applied in substitution to the low risk exemption that can be chosen under the IFRS9 Standard. This allows for more flexibility as stage transfers are also possible for transactions that have an assigned investment grade rating. As soon as the relevant ratios and differences of lifetime PDs exceed defined thresholds, the financial instrument is assigned to stage 2, in which lifetime expected loss numbers are considered as expected credit losses instead of 12-month expected loss numbers.

The qualitative factors include the following tests: 1) whether the financial instrument is 30 days delayed or not, 2) whether the financial instrument is on a watch list or not, 3) whether the financial instrument has a warning signal or not. As soon as one of the qualitative factors is relevant, the financial instrument is assigned to stage 2.

When IFRS 9 is applied for the first time, BAWAG P.S.K. expects the following impact on its financial accounts: The effect on regulatory capital is expected to be around <40 basis points, taking into consideration impacts arising from both Classification & Measurement as well as Impairment.

In September 2016, the EU endorsed IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 specifies when and how revenue from contracts with customers is to be recognized. IFRS 15 replaces the standards IAS 11 *Construction Contracts* and IAS 18 *Revenue*, as well as IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 is mandatory for annual reporting periods beginning on or after 1 January 2018 and will have no material impact on the consolidated financial statements of BAWAG P.S.K. from a current perspective.

1) In the following this document is called IFRS 9 Standard.

The following standards and amendments approved by the International Accounting Standards Board (IASB) have not yet been endorsed by the European Union:

The IASB issued Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) in June 2016. The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The Amendments to IFRS 2 are applicable to annual reporting periods beginning on or after 1 January 2018 and will not be applicable to the consolidated financial statements of BAWAG P.S.K. from a current perspective.

In September 2016, the IASB issued Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts and so two options for entities that issue insurance contracts within the scope of IFRS 4 are provided: overlay approach and deferral approach. The overlay approach permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The deferral approach is a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard (IFRS 17; applicable to annual reporting periods beginning on or after 1 January 2021) is applied. The overlay approach should be applied retrospectively to qualifying financial assets when the entity first applies IFRS 9. The deferral approach is applicable to annual reporting periods beginning on or after 1 January 2018. These amendments will have no major impact on the consolidated financial statements of BAWAG P.S.K.

IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of the International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP. IFRS 14 is applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG P.S.K. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

In April 2016, the IASB issued Clarifications to IFRS 15 Revenue from Contracts with Customers, which address three topics: Identifying performance obligations, Principal versus agent considerations and Licensing and also provide some transition relief for modified contracts and completed contracts. The clarifications to IFRS 15 are applicable to annual reporting periods beginning on or after 1 January 2018 and will not be applicable to the consolidated financial statements of BAWAG P.S.K.

The IASB issued IFRS 16 Leases in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). 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 P.S.K. BAWAG P.S.K. is currently evaluating the effects of IFRS 16 on the consolidated financial statements. One major effect for BAWAG P.S.K. 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.

The IASB issued *Disclosure Initiative (Amendments to IAS 7)* in January 2016, which comes with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. This objective will influence the disclosures concerning changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value. The amendments state also that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. The Amendments to IAS 7 are applicable to annual reporting periods beginning on or after 1 January 2017 and will lead to an amended disclosure of changes in liabilities arising from financing activities in the cash flow statement of BAWAG P.S.K.

In January 2016, the IASB issued the amendment *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*, which clarify the aspect that regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference. The amendment also clarifies that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity should assess a deferred tax asset in combination with other deferred tax assets when tax law restricts the utilization of tax losses. The Amendments to IAS 12 are applicable to annual reporting periods beginning on or after 1 January 2017 and will have an impact on the consolidated financial statements of BAWAG P.S.K.

Annual Improvements to IFRSs 2014–2016 Cycle, which clarifies the following existing standards: IFRS 1 *First-time Adoption of International Financial Reporting Standards,* IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures.* The clarifications will have no impact on the consolidated financial statements of BAWAG P.S.K.

The IASB published *Transfers of Investment Property (Amendments to IAS 40)* to clarify transfers of property to, or from, investment property. The Amendments to IAS 40 are applicable to annual reporting periods beginning on or after 1 January 2018 and will have no material impact on the consolidated financial statements of BAWAG P.S.K. from a current perspective.

The IASB published *IFRIC 22 Foreign Currency Transactions and Advance Consideration* developed by the IFRS Interpretations Committee in December 2016 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 and will have no impact on the consolidated financial statements of BAWAG P.S.K. from a current perspective.

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Net interest income

in EUR million	2016	2015
Interest income	**1,024.4**	**1,051.3**
Cash reserves	–	0.1
Financial assets held for trading	78.8	116.5
Financial assets designated at fair value through profit or loss	3.8	11.0
Available-for-sale financial assets	67.6	89.3
Loans and receivables	699.1	656.4
Held-to-maturity investments	38.2	42.5
Derivatives – Hedge accounting, interest rate risk	134.7	135.3
Other assets	2.2	0.2
Interest expense	**(297.7)**	**(339.2)**
Deposits from central banks	(3.0)	(0.5)
Financial liabilities held for trading	(56.5)	(41.1)
Financial liabilities designated at fair value through profit or loss	(29.3)	(49.2)
Financial liabilities measured at amortized cost	(150.8)	(203.6)
Derivatives – Hedge accounting, interest rate risk	(48.6)	(35.0)
Provisions for social capital	(8.0)	(9.8)
Other liabilities	(1.5)	–
Dividend income	**3.3**	**10.2**
Available-for-sale financial assets	3.3	10.2
Net interest income	**730.0**	**722.3**

Interest income and similar income are recognized on an accrual basis. Interest income also includes, among others, premiums and discounts on securities classified as financial investments as well as premiums and discounts on acquired loan portfolios which are allocated in accordance with the accruals concept. Interest income on impaired receivables during 2016 amounted to EUR 1.3 million (2015: EUR 2.8 million).

3 | Net fee and commission income

Net fee and commission income can be broken down by BAWAG P.S.K.'s operations as follows:

in EUR million	2016	2015
Fee and commission income	**276.3**	**292.3**
Payment transfers	170.0	172.0
Lending	30.1	25.3
Securities and custody business	36.9	58.7
Other services	39.3	36.3
Fee and commission expense	**(83.4)**	**(106.4)**
Payment transfers	(39.6)	(38.3)
Lending	(1.6)	(1.9)
Securities and custody business	(3.0)	(4.9)
Others	(39.2)	(61.3)
Net fee and commission income	**192.9**	**185.9**

4 | Gains and losses on financial assets and liabilities

in EUR million	2016	2015
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**9.5**	**104.1**
Available-for-sale financial assets	15.7	62.5
Loans and receivables	(10.5)	3.4
Held-to-maturity investments	9.0	7.2
Financial liabilities measured at amortized cost	(5.7)	(17.3)
Gain from the sale of subsidiaries and associates	11.0	51.7
Other result	(10.0)	(3.4)
Gains (losses) on financial assets and liabilities held for trading, net	**2.3**	**(73.1)**
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**9.7**	**28.3**
Gains (losses) from fair value hedge accounting	**0.1**	**1.0**
Fair value adjustment of hedged item	(74.0)	44.6
Fair value adjustment of hedging instrument	74.1	(43.6)
Exchange differences, net	**(2.5)**	**4.5**
Gains and losses on financial assets and liabilities	**19.1**	**64.8**

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sales of our investments, the sales of subsidiaries, issued securities, sales gains and losses from non-performing loans and derivative transactions for customers. In 2016 and 2015, there were no gains and losses on financial assets and liabilities attributable to non-controlling interests.

5 | Other operating income and expenses

in EUR million	2016	2015
Net income from investment properties	(0.1)	(0.1)
Income from investment properties	0.6	0.8
Expenses relating to investment properties	(0.7)	(0.9)
Gains from the sale of property, plant and equipment	0.2	7.6
Losses from the sale of property, plant and equipment	(3.5)	(6.5)
Regulatory charges	(84.9)	(35.2)
Results from business combinations	90.0	0.1
Other income and expenses	3.0	(2.3)
Other operating income and expenses	**4.7**	**(36.4)**

The line item Regulatory charges includes the bank levy (in 2016 also the additional one-time payment) and the contributions to the deposit guarantee scheme and to the bank resolution fund. The remeasurement of the collateral portion regarding the bank resolution fund in the amount of EUR 1.3 million (2015: EUR 2.3 million) is recognized in the gains and losses on financial assets and liabilities. Rental income from investment properties amounted to EUR 0.6 million in 2016 (2015: EUR 0.8 million); expenses amounted to EUR 0.6 million in 2016 (2015: EUR 0.8 million). Vacancy costs amounted to EUR 0.1 million (2015: EUR 0.1 million).

6 | Administrative expenses

in EUR million	2016	2015
Staff costs	**(243.5)**	**(238.0)**
Wages and salaries	(186.0)	(179.0)
Statutory social security contributions	(53.7)	(54.5)
Staff benefit costs	(10.8)	(9.8)
Increase of pension provision	(0.4)	(0.3)
Decrease of provision for severance payments	7.6	3.3
Decrease of provision for jubilee benefits	1.5	3.8
Staff benefit fund costs	(1.7)	(1.5)
Other administrative expenses	**(137.3)**	**(163.1)**
IT, data, communication	(44.9)	(48.3)
Real estate, utility, maintenance expenses	(38.9)	(47.8)
Advertising	(20.1)	(24.5)
Other general expenses	(12.9)	(15.6)
Other third party fees – legal, outsourcing, etc.	(7.0)	(14.1)
Postage fees	(9.0)	(8.1)
Regulatory projects and audit fees	(4.5)	(4.7)
Restructuring and other one-off expenses	**(24.6)**	**(31.8)**
Administrative expenses	**(405.4)**	**(432.9)**

The line item Restructuring and other one-off expenses, totaling minus EUR 24.6 million, mainly includes expenses for restructuring costs in 2016, partly offset by the release of a provision for vacation pay.

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

in EUR million	2016	2015
Depreciation and amortization		
Brand name and customer relationships	(5.4)	(6.3)
Software and other intangible assets	(21.0)	(22.3)
Property, plant and equipment	(9.7)	(10.3)
Depreciation and amortization	**(36.1)**	**(38.9)**

8 | Risk costs

in EUR million	2016	2015
Loan loss provisions of Loans and receivables	(35.4)	(36.0)
Changes in provisions for off-balance credit risk	5.7	(0.9)
Impairment losses on financial assets	(0.4)	(1.1)
Provisions and expenses for operational risk	(12.6)	(7.8)
Impairment losses on non-financial assets	–	–
Risk costs	**(42.7)**	**(45.8)**

Impairment losses on financial assets

in EUR million	2016	2015
Available-for-sale financial assets – equity investments	(0.4)	(1.1)
Available-for-sale financial assets – debt instruments	–	–
Held-to-maturity investments	–	–
Impairment losses on financial assets	**(0.4)**	**(1.1)**

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

The profit reported for 2016 of EUR 8.0 million (2015: loss of EUR 0.5 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH.

The unrecognized share of the losses of entities that were accounted for using the equity method as provided by IFRS 12.22 (c) came to EUR 0.0 million (2015: EUR 0.0 million).

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

Associates accounted for using the equity method

in EUR million	2016	2015
Cumulated assets	2,472	2,417
Cumulated liabilities	2,326	2,293
Cumulated equity	146	125
Earned premiums (gross)	231	281
Fee and commission income	172	187
Cumulated net profit	34	24

The associates accounted for using the equity method are BAWAG P.S.K. Versicherung Aktiengesellschaft (stake of 25.00%) and PSA Payment Services Austria GmbH (stake of 20.82%). For further details, please refer to Note 36 Related parties.

10 | Income taxes

in EUR million	2016	2015
Current tax expense	(3.4)	(3.3)
Deferred tax expense/income	16.8	(20.8)
Income taxes	**13.4**	**(24.1)**

The deferred tax income in 2016 is mainly due to recognition of deferred tax assets on tax loss carry-forwards.

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

in EUR million	2016	2015
Profit before tax	470.4	418.5
Tax rate	25%	25%
Computed tax expenses	**(117.6)**	**(104.6)**
Reductions in tax		
Due to tax-exempt income from equity investments	3.0	2.1
Due to gains and losses from the valuation of equity investments	23.0	6.4
Due to first time consolidation	31.1	–
Due to other tax-exempt income	0.6	3.5
Due to differing foreign tax rates	0.0	0.0
Due to use of tax loss carryforwards of the tax group parent	12.0	20.4
Due to valuation of deferred taxes on tax loss carryforwards	76.9	67.7
Due to other tax effects	2.6	3.9
Increases in tax		
Due to gains and losses from the valuation of equity investments	(0.4)	(2.2)
Due to the sale of equity investments	–	(15.8)
Due to unrecognized deferred taxes on tax loss carryforwards	–	(1.6)
Due to non-tax deductible expenses	(8.3)	(3.4)
Due to other tax effects	(5.5)	(1.7)
Income tax in the period	**17.4**	**(25.3)**
Out-of-period income tax	(4.0)	1.2
Reported income tax (expense)	**13.4**	**(24.1)**

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 245 million (2015: EUR 217 million). The tax losses can be carried forward for an unlimited period. The taxed portion of the liability reserve was EUR 372.9 million (2015: EUR 372.9 million). The total liability reserve amounted to EUR 613.7 million as of 31 December 2016 (2015: EUR 613.7 million).

As of 31 December 2016, unused tax losses amounted to EUR 381 million (2015: EUR 361 million) at the level of BAWAG Holding, EUR 594 million (2015: EUR 868 million) at the level of BAWAG P.S.K., EUR 0 million (2015: EUR 0 million) at the level of members of the tax group included in the consolidated financial statements and EUR 5 million (2015: EUR 66 million) at the level of other companies included in the consolidated financial statements, for a total of EUR 980 million (2015: EUR 1,295 million). Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11 | Cash reserves

in EUR million	31.12.2016	31.12.2015
Cash on hand	422	378
Balances at central banks	598	431
Cash reserves	**1,020**	**809**

12 | Financial assets designated at fair value through profit or loss

in EUR million	31.12.2016	31.12.2015
Loans and advances to customers	145	159
Bonds and other fixed income securities	54	139
Shares and other variable rate securities	3	5
Financial assets designated at fair value through profit or loss	**202**	**303**

The category Financial assets designated at fair value through profit or loss contains all financial instruments that are carried at their fair value through profit or loss because the fair value option defined in IAS 39 has been exercised for them. Further information on the fair value option can be found in Note 1.

The maximum credit risk of loans and advances to customers equals book value.

13 | Available-for-sale financial assets

in EUR million	31.12.2016	31.12.2015
Debt instruments	**3,129**	**2,661**
Bonds and other fixed income securities	3,129	2,661
Public sector debt instruments	510	341
Bonds of other issuers	2,619	2,320
Equity investments	**80**	**84**
Recognized at cost		
Investments in non-consolidated subsidiaries	22	22
Interests in associates	19	19
Other shareholdings	39	39
Recognized at fair value		
Other shareholdings	–	4
Available-for-sale financial assets	**3,209**	**2,745**

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

Associates not accounted for using the equity method due to immateriality

in EUR million	31.12.2016	31.12.2015
Cumulated assets	499	494
Cumulated equity	83	80
Cumulated net profit	7	2

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG P.S.K. as of 31 December 2016 were being prepared, financial statements as of 31 December 2015 were available for the majority of the respective entities (prior year: 31 December 2014).

From an economic point of view, we would like to note that the table above does not take the economic share invested into consideration. The average economic share is 39% (2015: 40%).

For further details, please refer to Note 36 Related parties.

14 | Held-to-maturity financial investments

in EUR million	31.12.2016	31.12.2015
Debt instruments	**2,353**	**2,290**
Bonds and other fixed income securities	2,353	2,290
Public sector debt instruments	498	574
Bonds of other issuers	1,855	1,716
Held-to-maturity financial investments	**2,353**	**2,290**

15 | Financial assets held for trading

in EUR million	31.12.2016	31.12.2015
Derivatives in trading book	**230**	**320**
Foreign currency derivatives	20	62
Interest rate derivatives	210	258
Derivatives in banking book	**422**	**630**
Foreign currency derivatives	20	152
Interest rate derivatives	402	478
Credit related derivatives	–	0
Financial assets held for trading	**652**	**950**

16 | Loans and receivables

The following breakdown depicts the composition of the item Loans and receivables. The financial assets in this category are measured at amortized cost.

					31.12.2016
in EUR 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**
Securities	**692**	**–**	**–**	**–**	**692**
Public sector debt instruments	91	–	–	–	91
Debt instruments of other issuers	601	–	–	–	601
Receivables from credit institutions	**1,635**	**–**	**–**	**–**	**1,635**
Receivables from customers	**28,152**	**547**	**(129)**	**(76)**	**28,494**
Corporates and other customers	13,355	294	(15)	–	13,634
Retail	14,732	253	(114)	(22)	14,849
Central governments	65	–	–	–	65
IBNR portfolio provision[1]	**–**	**–**	**–**	**(54)**	**(54)**
Total	**30,479**	**547**	**(129)**	**(76)**	**30,821**

1) Allowance for incurred but not reported losses.

in EUR 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
					31.12.2015
Securities	**973**	**–**	**–**	**–**	**973**
Public sector debt instruments	94	–	–	–	94
Debt instruments of other issuers	879	–	–	–	879
Receivables from credit institutions	**1,710**	**–**	**–**	**–**	**1,710**
Receivables from customers	**24,377**	**571**	**(170)**	**(65)**	**24,713**
Corporates and other customers	13,491	311	(24)	(2)	13,776
Retail	10,815	260	(146)	(17)	10,912
Central governments	71	–	–	–	71
Other customers	–	–	–	–	–
IBNR portfolio provision[1)]	**–**	**–**	**–**	**(46)**	**(46)**
Total	**27,060**	**571**	**(170)**	**(65)**	**27,396**

1) Allowance for incurred but not reported losses.

The Receivables from customers are broken down into the following receivables classes.

The category Central governments includes receivables from central governments, primarily from the Republic of Austria in the case of BAWAG P.S.K.

The Corporates category includes larger enterprises with an exposure in excess of EUR 1 million or revenue of over EUR 50 million, and special financing agreements (project finance). Other customers cover public sector entities, churches and religious groups, political parties, associations and securities trading houses without a banking license.

The Retail category covers receivables from retail banking. This segment comprises individuals and small and medium-sized enterprises with an exposure of less than EUR 1 million or revenue of less than EUR 50 million.

The IBNR portfolio provision represents a provision for losses incurred but not reported yet and is calculated for all portfolios.

The following breakdown depicts the composition of the item Loans and receivables according to the Group's segments.

in EUR 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
					31.12.2016
BAWAG P.S.K. Retail	11,499	160	(84)	(19)	11,556
easygroup	4,426	32	(20)	(3)	4,436
DACH Corporates & Public Sector	7,568	34	(21)	0	7,580
International Business	5,392	0	0	0	5,392
Treasury Services & Markets	1,496	0	0	0	1,496
Corporate Center	99	321	(5)	(54)	361
Total	**30,479**	**547**	**(129)**	**(76)**	**30,821**

in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	31.12.2015 Total net carrying amount
BAWAG P.S.K. Retail	8,982	193	(121)	(18)	9,036
easygroup	3,622	22	(14)	0	3,630
DACH Corporates & Public Sector	7,271	53	(34)	0	7,289
International Business	5,429	0	0	0	5,429
Treasury Services & Markets	1,595	0	0	0	1,595
Corporate Center	162	302	0	(46)	418
Total	**27,060**	**571**	**(170)**	**(65)**	**27,396**

Reclassifications

BAWAG P.S.K. transferred available-for-sale financial assets to the Statement of Financial Position item Loans and receivables at their fair values in the amount of EUR 1,897 million as of 1 June 2010.

These reclassified assets are private placements and credit surrogates without derivative components. BAWAG P.S.K. is of the opinion that the amortized cost of the reclassified assets offers relevant information for readers of the financial report.

As of 31 December 2016, the carrying amount of these reclassified assets amounted to EUR 40 million (2015: EUR 60 million). Their fair value amounted to EUR 39 million (2015: EUR 60 million). The decline in comparison to the previous year results primarily from redemptions.

As of 31 December 2016, an AFS reserve in the amount of EUR 1 million (2015: plus EUR 1 million) was recognized for reclassified financial assets. If the assets had not been reclassified, unrealized fair value changes in the amount of EUR 0 million (2015: EUR 0 million) would have been recognized in Other comprehensive income (in the AFS reserve) for available-for-sale financial assets.

After reclassification, the financial assets in question continued to make the following contribution to the pre-tax profit of the respective year:

in EUR million	2016	2015
Interest income	0.7	2.2
Profits from disposals	–	–

Changes in loan loss provisions

in EUR million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2016	**–**	**189**	**–**	**46**	**235**
Additions					
Changes in scope of consolidation	–	11	–	7	18
Provisions created through profit or loss	–	47	–	1	48
Others	–	–	–	–	–
Unwinding pursuant to IAS 39	–	1	–	–	1
Disposals					
Changes in scope of consolidation	–	(1)	–	–	(1)
Used as intended	–	(60)	–	–	(60)
Provisions released through profit or loss	–	(36)	–	–	(36)
Reclassification	**–**	**–**	**–**	**–**	**–**
Balance as of 31.12.2016	**–**	**151**	**–**	**54**	**205**

in EUR million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2015	**–**	**237**	**–**	**41**	**278**
Additions					
Changes in scope of consolidation	–	16	–	–	16
Provisions created through profit or loss	–	64	–	–	64
Others		–		7	7
Unwinding pursuant to IAS 39	–	3	–	–	3
Disposals					
Changes in scope of consolidation	–	–	–	–	–
Used as intended	–	(94)	–	–	(94)
Provisions released through profit or loss	–	(37)	–	(2)	(39)
Reclassification	**–**	**–**	**–**	**–**	**–**
Balance as of 31.12.2015 = 01.01.2016	**–**	**189**	**–**	**46**	**235**

The loan loss provisions break down by region as follows:

in EUR million	31.12.2016	31.12.2015
Austria	**190**	**223**
Abroad	**15**	**12**
Western Europe	12	9
Central and Eastern Europe	3	3
Loan loss provisions	**205**	**235**

17 | Receivables from customers and credit institutions

The following table depicts the breakdown of receivables from customers and credit institutions by credit type.

Receivables from customers – breakdown by credit type

	Designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Current accounts	**–**	**–**	**1,325**	**1,041**	**1,325**	**1,041**
Cash advances	**–**	**–**	**667**	**131**	**667**	**131**
Loans	**145**	**159**	**25,300**	**22,258**	**25,445**	**22,417**
One-off loans	145	159	25,287	22,257	25,432	22,416
Current account loans	–	–	12	–	12	–
Other	–	–	1	1	1	1
Finance leases	**–**	**–**	**1,202**	**1,283**	**1,202**	**1,283**
Receivables from customers	**145**	**159**	**28,494**	**24,713**	**28,639**	**24,872**

Receivables from credit institutions – breakdown by credit type

	Designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Demand deposits	–	–	221	211	221	211
Time deposits	–	–	1,268	1,358	1,268	1,358
Loans	–	–	145	140	145	140
Other	–	–	1	1	1	1
Receivables from credit institutions	**–**	**–**	**1,635**	**1,710**	**1,635**	**1,710**

18 | Asset maturities

The following table contains a breakdown of financial assets (excl. equity investments and derivatives) by remaining period to maturity. Assets without a defined maturity are classified as "Up to 3 months."

Financial assets – breakdown by remaining period to maturity 2016

					31.12.2016
in EUR million	**Up to 3 months**	**3 months up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Financial assets designated at fair value through profit or loss					
Receivables from customers	4	57	37	47	145
Bonds and other fixed income securities	–	–	34	20	54
Available-for-sale financial assets					
Bonds and other fixed income securities	345	259	1,229	1,296	3,129
Held-to-maturity investments					
Bonds and other fixed income securities	53	147	1,234	919	2,353
Loans and receivables					
Receivables from customers	1,665	2,602	9,917	14,310	28,494
Receivables from credit institutions	1,492	–	9	134	1,635
Bonds and other fixed income securities	–	50	420	222	692
Total	**3,559**	**3,115**	**12,880**	**16,948**	**36,502**

Financial assets – breakdown by remaining period to maturity 2015

					31.12.2015
in EUR million	**Up to 3 months**	**3 months up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Financial assets designated at fair value through profit or loss					
Receivables from customers	4	61	42	52	**159**
Bonds and other fixed income securities	41	44	–	54	**139**
Available-for-sale financial assets					
Bonds and other fixed income securities	174	390	1,371	726	**2,661**
Held-to-maturity investments					
Bonds and other fixed income securities	75	154	1,001	1,060	**2,290**
Loans and receivables					
Receivables from customers	2,621	819	8,621	12,652	**24,713**
Receivables from credit institutions	1,571	8	1	130	**1,710**
Bonds and other fixed income securities	–	134	593	246	**973**
Total	**4,486**	**1,610**	**11,629**	**14,920**	**32,645**

19 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment and investment properties 2016

in EUR million	Carrying amount 31.12.2015	Acquisition cost 01.01.2016	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2016	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**59**	**202**	**–**	**–**	**–**	**4**	**(11)**	**–**	**(142)**	**53**	**(9)**
Land and buildings used by the enterprise for its own operations	7	20	–	–	–	–	(2)	–	(11)	7	–
Office furniture and equipment	52	182	–	–	–	4	(9)	–	(131)	46	(9)
Plant under construction	–	–	–	–	–	–	–	–	–	–	–
Investment properties	**4**	**26**	**–**	**–**	**–**	**–**	**–**	**–**	**(23)**	**3**	**–**

Changes in property, plant and equipment and investment properties 2015

in EUR million	Carrying amount 31.12.2014	Acquisition cost 01.01.2015	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2015	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**81**	**268**	**6**	**–**	**–**	**8**	**(79)**	**(1)**	**(143)**	**59**	**(10)**
Land and buildings used by the enterprise for its own operations	22	53	–	–	–	–	(33)	–	(13)	7	–
Office furniture and equipment	58	214	6	–	–	8	(46)	–	(130)	52	(10)
Plant under construction	1	1	–	–	–	–	–	(1)	–	–	–
Investment properties	**3**	**25**	**–**	**–**	**–**	**–**	**–**	**1**	**(22)**	**4**	**–**

No impairments have been recognized in profit or loss in the financial year 2016 (2015: EUR 0.0 million).

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

The brand name "BAWAG P.S.K." with a book value of EUR 42 million (2015: EUR 42 million) and customer relationships with a total book value of EUR 132 million (2015: EUR 126 million) are the Bank's most important intangible non-current assets. The book value of the customer relationships is amortized according to the churn rate of the customers. Of the total carrying amount for all intangible non-current assets, a major part can be attributed to Allegro projects (BAWAG P.S.K.'s core banking system) carried out in this context. Due to changed circumstances, the useful life was adjusted to 17 years considering the remaining economic life. As a result, depreciation for 2017 is reduced by EUR 1.4 million to EUR 2.1 million.

Changes in Goodwill, Software and other intangible assets 2016

in EUR million	Carrying amount 31.12.2015	Acquisition cost 01.01.2016	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative amortization	Additions	Disposals	Reallocations	Write-downs cumulative	Reclassification to non-current assets and disposal groups classified as held for sale	Carrying amount 31.12.2016	Amortization (-), impairments (+) and reversal of impairments (+) Financial year
Goodwill	**58**	**624**	**–**	**–**	**–**	**–**	**–**	**(566)**	**–**	**58**	**–**
Brand name and customer relationships	**168**	**410**	**12**	**–**	**–**	**–**	**–**	**(248)**	**–**	**174**	**(6)**
Software and other intangible assets	**103**	**511**	**–**	**–**	**50**	**(7)**	**–**	**(426)**	**–**	**128**	**(21)**
Software and other intangible non-current assets	90	480	–	–	42	(6)	1	(405)	–	112	(19)
thereof purchased	84	472	–	–	30	(5)	1	(403)	–	95	(17)
thereof internally generated	6	8	–	–	12	(1)	–	(2)	–	17	(2)
Intangible non-current assets in development	2	2	–	–	6	(1)	(1)	–	–	6	–
thereof purchased	2	2	–	–	2	(1)	(1)	–	–	2	–
thereof internally generated	–	–	–	–	4	–	–	–	–	4	–
Rights and compensation payments	11	29	–	–	2	–	–	(21)	–	10	(2)

Changes in Goodwill, Software and other intangible assets 2015

in EUR million	Carrying amount 31.12.2015	Acquisition cost 01.01.2016	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative amortization	Additions	Disposals	Reallocations	Write-downs cumulative	Reclassification to non-current assets and disposal groups classified as held for sale	Carrying amount 31.12.2016	Amortization (-), impairments (+) and reversal of impairments (+) Financial year
Goodwill	**58**	**624**	**–**	**–**	**–**	**–**	**–**	**(566)**	**–**	**58**	**–**
Brand name and customer relationships	**174**	**410**	**–**	**–**	**–**	**–**	**–**	**(242)**	**–**	**168**	**(6)**
Software and other intangible assets	**102**	**493**	**–**	**–**	**26**	**(8)**	**–**	**(408)**	**–**	**103**	**(22)**
Software and other intangible non-current assets	88	461	–	–	23	(7)	3	(390)	–	90	(21)
thereof purchased	84	457	–	–	20	(7)	2	(388)	–	84	(20)
thereof internally generated	4	4	–	–	3	–	1	(2)	–	6	(1)
Intangible non-current assets in development	3	4	–	–	1	–	(3)	–	–	2	–
thereof purchased	2	3	–	–	1	–	(2)	–	–	2	–
thereof internally generated	1	1	–	–	–	–	(1)	–	–	–	–
Rights and compensation payments	11	28	–	–	2	(1)	–	(18)	–	11	(1)

No impairments have been recognized in profit or loss in the financial year 2016 (2015: EUR 0 million). No reversals of impairments have been recognized in the financial year 2016 or in the prior year.

Impairment testing for cash generating units with goodwill

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

in EUR million	**31.12.2016**	**31.12.2015**
easybank AG, Vienna	58	58
Goodwill	**58**	**58**

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

in %	2016	2015
Discount rate	10.2%	10.1%
Sustainable growth rate	1.0%	1.0%
Planned profit growth rate (average for the next five years)	16.7%	2.5%

The discount rate is before taxes and was estimated based on average equity returns in the sector. This discount rate was calculated based on the pre-tax interest rate required in IAS 36, taking into account the substantial tax loss carryforwards of BAWAG P.S.K. The risk-free interest rate used is the yield on government bonds with a remaining term to maturity of 30 years published by the German central bank. This discount rate is adjusted by applying a risk premium that reflects the higher general risk associated with an equity investment and the specific risk of the individual cash generating unit.

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make.

Sensitivity analysis as of 31.12.2016

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an increase in the discount rate or a decline in growth after 2017 could occur without the fair value of the cash generating unit sinking below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	Change in growth after 2017 (in %)
easybank AG, Vienna	1,908	<(100)%

Sensitivity analysis as of 31.12.2015

	Change in discount rate (in percentage pts)	Change in growth after 2016 (in %)
easybank AG, Vienna	1,033	<(100)%

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

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

in EUR million	31.12.2016	31.12.2015
Financial liabilities designated at fair value through profit or loss	35	30
Loans and receivables	73	99
Provisions	68	51
Tax loss carryforwards	245	217
Other	6	4
Deferred tax assets	**427**	**401**
Financial assets designated at fair value through profit or loss	13	15
Available-for-sale financial assets	27	25
Assets held for trading	50	48
Hedging derivatives	112	76
Internally generated intangible assets	6	2
Other intangible assets	43	42
Property, plant and equipment	1	1
Other	–	2
Deferred tax liabilities	**252**	**211**
Deferred tax assets reported on the balance sheet	**203**	**190**
Deferred tax liabilities reported on the balance sheet[1)]	**27**	**–**

1) Representing deferred tax liabilities of a newly acquired company which was not part of the tax group as of 31 December 2016.

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

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 245 million (2015: EUR 217 million). The tax losses can be carried forward for an unlimited period. The taxed portion of the liability reserve was EUR 372.9 million (2015: EUR 372.9 million). The total liability reserve amounted to EUR 613.7 million as of 31 December 2016 (2015: EUR 613.7 million).

As of 31 December 2016, unused tax losses amounted to EUR 381 million (2015: EUR 361 million) at the level of BAWAG Holding, EUR 594 million (2015: EUR 868 million) at the level of BAWAG P.S.K., EUR 0 million (2015: EUR 0 million) at the level of members of the tax group included in the consolidated financial statements and EUR 5 million (2015: EUR 66 million) at the level of other companies included in the consolidated financial statements, for a total of EUR 980 million (2015: EUR 1,295 million). Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to EUR 358 million (2015: EUR 153 million). IAS 12.39 stipulates that, in the case of temporary differences associated with investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will be reversed in the foreseeable future.

22 | Other assets

in EUR million	31.12.2016	31.12.2015
Accruals	18	21
Leasing objects not in operation yet	2	7
Other items	115	64
Other assets	**135**	**92**

The other items include accounts relating to payment and miscellaneous other assets.

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

in EUR million	31.12.2016	31.12.2015
Issued bonds, subordinated and supplementary capital	**1,115**	**1,269**
Issued bonds (own issues)	190	149
Subordinated capital	109	123
Supplementary capital	–	25
Short-term notes and non-listed private placements	816	972
Financial liabilities designated at fair value through profit or loss	**1,115**	**1,269**

The Issued bonds are listed issues. The increase compared to the previous year was mainly driven by the acquisition of IMMO-BANK AG partly compensated by redemptions of own issues.

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

The carrying amount of the securities issued by BAWAG P.S.K. and recognized at their fair value as of 31 December 2016 was EUR 79 million above their repayment amount (2015: EUR 77 million above the repayment amount).

24 | Financial liabilities held for trading

in EUR million	31.12.2016	31.12.2015
Derivatives trading book	**143**	**291**
Foreign currency derivatives	46	152
Interest rate derivatives	97	139
Derivatives banking book	**474**	**780**
Foreign currency derivatives	193	501
Interest rate derivatives	281	279
Financial liabilities held for trading	**617**	**1,071**

25 | Financial liabilities measured at amortized cost

in EUR million	31.12.2016	31.12.2015
Deposits from banks	**2,064**	**3,586**
Deposits from customers	**25,998**	**21,692**
Savings deposits – fixed interest rates	1,928	2,363
Savings deposits – variable interest rates	6,372	4,556
Deposit accounts	6,074	5,490
Current accounts – Retail	7,341	6,488
Current accounts – Corporates	2,505	2,003
Other deposits[1)]	1,778	792
Issued bonds, subordinated and supplementary capital	**4,900**	**3,236**
Issued bonds	3,042	1,264
Subordinated capital	428	410
Supplementary capital	36	5
Short-term notes and unlisted private placements	1,394	1,557
Financial liabilities associated with transferred assets	**–**	**–**
Financial liabilities at amortized cost	**32,962**	**28,514**

1) Primarily time deposits.

The bonds issued by BAWAG P.S.K. were listed securities.

26 | Issued bonds, subordinated and supplementary capital

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

	Recognized at fair value		Recognized at amortized cost		Total	
in EUR million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Issued bonds (own issues)	190	149	3,042	1,264	3,232	1,413
Subordinated capital	109	123	428	410	537	533
Supplementary capital	–	25	36	5	36	30
Short-term notes and unlisted private placements	816	972	1,394	1,557	2,210	2,529
Total	**1,115**	**1,269**	**4,900**	**3,236**	**6,015**	**4,505**

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

ISIN	Type	Currency	Nominal value in EUR million	Type of interest payment	Coupon	Maturity date
XS1514988689	RMBS	GBP	783	Variable	3M LIBOR + 0.7%	15.09.2045
XS0830444039	Covered	EUR	500	Fixed	1.875%	18.09.2019
XS1298418184	Covered	EUR	500	Fixed	0.375%	01.10.2020
XS1369268534	Covered	EUR	500	Fixed	0.375%	23.02.2022
XS0987169637	Lower Tier II	EUR	300	Fixed	8.125%	30.10.2023

27 | Deposits from customers

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

Deposits from customers – breakdown by product class and business sector

in EUR million	At amortized cost 31.12.2016	 31.12.2015
Savings deposits	**8,300**	**6,919**
Savings accounts	4,565	4,389
Building savings deposits	1,786	–
Fixed-term investment savings accounts	1,941	2,384
Savings associations	8	146
Other deposits	**17,698**	**14,773**
Retail	11,834	9,946
Corporates	5,006	3,832
Non-credit institutions	669	626
Central governments	189	369
Deposits from customers	**25,998**	**21,692**

28 | Liabilities maturities

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

Financial liabilities – breakdown by remaining period to maturity 2016

					31.12.2016
in EUR million	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss					
Bonds	9	40	74	67	**190**
Subordinated capital	–	–	24	85	**109**
Supplementary capital	–	–	–	–	**–**
Short-term notes and non-listed private placements	15	64	482	255	**816**
Liabilities at amortized cost					
Deposits from customers	20,375	3,425	2,021	177	25,998
Deposits from banks	1,380	71	312	301	**2,064**
Bonds	75	151	1,552	1,264	**3,042**
Subordinated capital	1	–	43	384	**428**
Supplementary capital	5	10	21	–	**36**
Short-term notes and non-listed private placements	36	1	252	1,105	**1,394**
Total	**21,896**	**3,762**	**4,781**	**3,638**	**34,077**

Financial liabilities – breakdown by remaining period to maturity 2015

					31.12.2015
in EUR million	**Up to 3 months**	**3 months up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Liabilities designated at fair value through profit or loss					
Bonds	–	18	98	33	149
Subordinated capital	–	18	21	84	123
Supplementary capital	5	20	–	–	25
Short-term notes and non-listed private placements	3	90	404	475	972
Liabilities at amortized cost					
Deposits from customers	17,290	2,821	1,416	165	21,692
Deposits from banks	2,144	33	1,091	318	3,586
Bonds	–	12	1,218	34	1,264
Subordinated capital	–	–	29	381	410
Supplementary capital	–	–	5	–	5
Short-term notes and non-listed private placements	–	119	272	1,166	1,557
Total	**19,442**	**3,131**	**4,554**	**2,656**	**29,783**

29 | Provisions

in EUR million	**31.12.2016**	**31.12.2015**
Provisions for social capital	386	390
thereof for severance payments	97	96
thereof for pension provisions	260	265
thereof for jubilee benefits	29	29
Anticipated losses from pending business	8	24
Credit promises and guarantees	8	24
Other items including legal risks	10	5
Provisions	**404**	**419**

Provisions for social capital are long-term liabilities. Provisions for anticipated losses on pending business in the amount of EUR 2 million and other risks including legal risks in the amount of EUR 3 million are expected to be used after more than twelve months.

Changes in social capital

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2016	**276**	**96**	**29**	**401**
Service cost	1	5	2	7
Interest cost	6	2	1	8
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	2	3	3	8
due to other reasons, mainly experience results	(2)	(2)	(4)	(7)
Gain from settlements	0	(1)	–	(1)
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(14)	(9)	(3)	(25)
Change in scope of consolidation	1	6	1	8
Other	(0)	(3)	–	(3)
Defined benefit obligation as of 31.12.2016	**270**	**97**	**29**	**397**
Fair value of plan assets	(10)	–	–	(10)
Provision as of 31.12.2016	**260**	**97**	**29**	**387**

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2015	**371**	**98**	**32**	**501**
Service cost	1	5	2	8
Interest cost	7	2	1	10
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	(6)	–	–	(6)
due to other reasons, mainly experience results	(9)	(2)	(4)	(15)
Gain from settlements	(22)	–	–	(22)
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(15)	(8)	(2)	(25)
Payments from settlements	(50)	–	–	(50)
Other	(1)	1	–	–
Defined benefit obligation as of 31.12.2015	**276**	**96**	**29**	**401**
Fair value of plan assets	(11)	–	–	(11)
Provision as of 31.12.2015	**265**	**96**	**29**	**390**

At 31 December 2016, the weighted average duration was 14.60 years (2015: 14.98 years) for defined benefit obligations relating to pension plans and 11.07 years (2015: 11.46 years) for obligations arising from entitlement to severance payments.

Assignable unit-linked pension fund assets

in EUR million	2016	2015
Pension fund assets as of 01.01.2016	**11**	**12**
Additions	–	–
Payments	(1)	(1)
Pension fund assets as of 31.12.2016	**10**	**11**

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

The Pension fund assets consist of:

in %	2016	2015
Bonds	67%	72%
Equities	16%	14%
Cash and cash equivalents	1%	1%
Other	17%	13%

Bonds issued by BAWAG P.S.K. amount to 0.04% of plan assets.

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

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

- a strategic asset mix comprising 57% government bonds, 15% corporates, 14% equities and 14% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: government bonds: 28%–86%, corporates: 0%–25%, equities: 0%–20%, other investments: 0%–20%;
- interest rate risk is monitored and managed through active duration risk management of all fixed income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 30%.

BAWAG P.S.K. expects that payments in the amount of EUR 0.2 million will have to be made to the pension fund in 2017 (2016: EUR 0.3 million).

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2016 in the amount of EUR 367 million:

Sensitivity analysis as of 31 December 2016

	Provisions for post-employment benefits and severance payments	
in EUR million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	323	422
Future salary growth – 1 percentage point movement	421	323
Attrition – 1 percentage point movement	352	370
Future mortality – 1 percentage point movement (post-employment benefits only)	270	272

Sensitivity analysis as of 31 December 2015

in EUR million	Provisions for post-employment benefits and severance payments	
	Increase of variable	**Decrease of variable**
Discount rate – 1 percentage point movement	325	429
Future salary growth – 1 percentage point movement	427	325
Attrition – 1 percentage point movement	355	374
Future mortality – 1 percentage point movement (post-employment benefits only)	275	277

Changes in other provisions

in EUR million	**Balance 01.01.2016**	**Change in scope of consolidation**	**Added**	**Used**	**Released**	**Balance 31.12.2016**
Other provisions	**29**	**10**	**10**	**(27)**	**(4)**	**18**
Anticipated losses from pending business	24	–	5	(18)	(3)	8
Other items	5	10	5	(9)	(1)	10

in EUR million	**Balance 01.01.2015**	**Change in scope of consolidation**	**Added**	**Used**	**Released**	**Balance 31.12.2015**
Other provisions	**33**	**–**	**6**	**(5)**	**(5)**	**29**
Anticipated losses from pending business	27	–	4	(3)	(4)	24
Other items	6	–	2	(2)	(1)	5

30 | Other obligations

in EUR million	**31.12.2016**	**31.12.2015**
Accounts relating to payment	283	247
Liabilities resulting from restructuring	150	141
Other liabilities	243	180
Accruals	4	8
Other obligations	**680**	**576**

31 | Hedging derivatives

in EUR million	**31.12.2016**	**31.12.2015**
Hedging derivatives in fair value hedges		
Positive market values	595	469
Negative market values	95	106
Hedging derivatives in cash flow hedges		
Positive market values	82	–
Negative market values	165	–

BAWAG P.S.K. uses fair value hedge accounting to account for hedges of interest rate risk inherent in fixed-rate financial instruments. Hedging instruments are usually interest rate swaps. The hedged items are securities in the category Available-for-sale financial assets as well as the Bank's own issues, savings accounts and loans to customers that are recognized at amortized cost. Since January 2016, BAWAG P.S.K. has applied cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Available-for-sale financial assets	**1,562**	**1,135**	**(34)**	**(44)**	**1**	**–**
Securities	1,562	1,135	(34)	(44)	1	–
Financial instruments recognized at amortized cost	**12,576**	**11,207**	**534**	**407**	**–**	**1**
Securities	90	172	(1)	(7)	–	–
Own issues	3,209	2,462	235	212	(2)	(1)
Savings deposits of customers	1,153	2,552	16	27	–	1
Loans to customers	305	305	(50)	(47)	–	–
Liabilities to customers	7,819	5,716	334	222	2	1
Total	**14,138**	**12,342**	**500**	**363**	**1**	**1**

The effects of changes in the value of the hedging instrument and the hedged item are shown under Note 4 Gains and losses on financial assets and liabilities.

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

	31.12.2016			
in EUR million	Within 1 year	1 to 5 years	Over 5 years	Total
	593	1,644	909	**3,147**

32 | Equity

Share capital

BAWAG P.S.K. has a fully paid in share capital of EUR 100 million, which remained unchanged compared to the previous year.

Non-controlling interests

The 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of EUR 2 million.

Liability reserve (Haftrücklage)

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

Changes in other comprehensive income

in EUR million	Retained reserves	AFS reserve	Cash flow hedge reserve net of tax	Actuarial gains/ losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2016	**483.6**	**(1.8)**	**6.3**	**(1.4)**	**486.7**	**0.2**	**486.9**
Consolidated profit/loss	483.6	–	–	–	483.6	0.2	483.8
Income and expenses recognized directly in equity	**–**	**(1.8)**	**6.3**	**(1.4)**	**3.1**	**–**	**3.1**
Change in cash flow hedge reserve	–	–	8.4	–	8.4	–	8.4
Changes in AFS reserves	–	2.9	–	–	2.9	–	2.9
Income and expenses recognized directly in equity (before taxes)	–	2.9	–	–	2.9	–	2.9
Share of other comprehensive income of associates accounted for using the equity method	–	(2.3)	–	–	(2.3)	–	(2.3)
Actuarial gains (losses) on defined benefit pension plans	–	–	–	(1.9)	(1.9)	–	(1.9)
Income taxes	–	(2.4)	(2.1)	0.5	(4.0)	–	(4.0)

in EUR million	Retained reserves	AFS reserve	Cash flow hedge reserve net of tax	Actuarial gains/ losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2015	**394.4**	**(65.9)**	**–**	**12.6**	**341.1**	**–**	**341.1**
Consolidated profit/loss	394.4	–	–	–	394.4	–	394.4
Income and expenses recognized directly in equity	**–**	**(65.9)**	**–**	**12.6**	**(53.3)**	**–**	**(53.3)**
Changes in AFS reserves	–	(92.5)	–	–	(92.5)	–	(92.5)
Income and expenses recognized directly in equity (before taxes)	–	(92.5)	–	–	(92.5)	–	(92.5)
Share of other comprehensive income of associates accounted for using the equity method	–	2.2	–	–	2.2	–	2.2
Actuarial gains (losses) on defined benefit pension plans	–	–	–	16.8	16.8	–	16.8
Income taxes	–	24.4	–	(4.2)	20.2	–	20.2

Deferred income taxes recognized in Other comprehensive income

	Before taxes	Income taxes	After taxes	Before taxes	Income taxes	After taxes
in EUR million		**01.01.–31.12.2016**			**01.01.–31.12.2015**	
Cash flow hedge reserve	8.4	(2.1)	6.3	–	–	–
AFS reserve	0.6	(2.4)	(1.8)	(90.3)	24.4	(65.9)
Actuarial gains (losses) on defined benefit pension plans	(1.9)	0.5	(1.4)	16.8	(4.2)	12.6
Income and expenses recognized directly in equity	**7.1**	**(4.0)**	**3.1**	**(73.5)**	**20.2**	**(53.3)**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2016.

The segment reporting presents the results of the operating business segments of BAWAG P.S.K. 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 an allocation factor.

As of June 2016, certain changes in the business segment reporting were made to be more transparent and better reflect the developments and our progress in the individual business segments going forward. The prior-year figures have been adjusted accordingly. A summary of the major changes and rationale is provided below:

Old reporting	New reporting	Changes
Retail Banking and Small Business		Segment split to clearly show
	BAWAG P.S.K. Retail	– the BAWAG P.S.K. origination capacities in retail and small business banking, adding own issues covered with retail assets and Wohnbaubank bonds from the Corporate Center to combine directly connected business activities in one business segment
	easygroup	– our direct bank activities of *easybank* with its leasing subsidiaries including international retail lending activities
Corporate Lending and Investments		Segment split to clearly show
	DACH Corporates & Public Sector	– direct customer business through the business solution partners in the DACH region, adding own issues covered with corporate or public assets as well as direct refinancings from the Corporate Center to combine directly connected business activities in one business segment
	International Business	– international origination business from the London office predominantly in Western markets
Treasury Services and Markets	Treasury Services & Markets	– Adding the liquidity portfolio as well as funding activities (unsecured issues, repos and short-term liquidity actions) from the Corporate Center
Corporate Center	Corporate Center	– Splitting out assets/liabilities as described above to clearly focus on non business related positions in the Corporate Center

BAWAG P.S.K. is managed in accordance with the following six main 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, building society savings and loans as well as real estate leasing.
- **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 and mobile leasing platforms as well as lending to our international retail clients.
- **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 are included in this segment as well.

– **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.

– **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 our portfolio of financial securities.

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

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:

							2016
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**	**Treasury Services & Markets**	**Corporate Center**	**Total**
Net interest income	352.3	115.8	79.5	134.0	54.3	(5.9)	730.0
Net fee and commission income	141.1	10.1	39.7	(0.1)	0.0	2.1	192.9
Core revenues	**493.4**	**125.9**	**119.2**	**133.9**	**54.3**	**(3.8)**	**922.9**
Gains and losses on financial instruments	0.8	0.0	1.0	(2.8)	11.9	8.2	19.1
Other operating income and expenses	1.5	(1.4)	0.0	0.0	0.0	48.4	48.5
Operating income	**495.7**	**124.5**	**120.2**	**131.1**	**66.2**	**52.8**	**990.5**
Operating expenses	**(273.5)**	**(30.6)**	**(53.6)**	**(29.9)**	**(16.3)**	**(35.4)**	**(439.3)**
Regulatory charges	(12.3)	(2.4)				(31.4)	(46.1)
Total risk costs	(40.8)	(4.8)	4.4	1.2	0.0	(2.7)	(42.7)
Share of the profit or loss of associates accounted for using the equity method						8.0	8.0
Profit before tax	**169.1**	**86.7**	**71.0**	**102.4**	**49.9**	**(8.7)**	**470.4**
Income taxes						13.4	13.4
Profit after tax	**169.1**	**86.7**	**71.0**	**102.4**	**49.9**	**4.7**	**483.8**
Non-controlling interests						(0.2)	(0.2)
Net profit	**169.1**	**86.7**	**71.0**	**102.4**	**49.9**	**4.5**	**483.6**
Business volumes							
Assets	11,659	4,458	7,812	5,634	6,691	3,489	39,743
Risk-weighted assets	4,432	2,346	2,916	4,169	2,031	1,246	17,140

in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
							2015
Net interest income	331.4	57.1	99.4	142.2	58.1	34.1	722.3
Net fee and commission income	135.9	8.1	39.2	0.0	0.0	2.7	185.9
Core revenues	**467.3**	**65.2**	**138.6**	**142.2**	**58.1**	**36.8**	**908.2**
Gains and losses on financial instruments	6.5	0.0	5.1	(6.0)	13.8	45.4	64.8
Other operating income and expenses	1.1	0.1	0.0	0.0	0.0	(2.4)	(1.2)
Operating income	**474.9**	**65.3**	**143.7**	**136.2**	**71.9**	**79.8**	**971.8**
Operating expenses	**(303.2)**	**(23.4)**	**(56.8)**	**(25.7)**	**(19.0)**	**(42.1)**	**(470.2)**
Regulatory charges	(6.3)					(30.5)	(36.8)
Total risk costs	(33.9)	0.1	(6.4)	0.2	0.0	(5.8)	(45.8)
Share of the profit or loss of associates accounted for using the equity method						(0.5)	(0.5)
Profit before tax	**131.5**	**42.0**	**80.5**	**110.7**	**52.9**	**0.9**	**418.5**
Income taxes						(24.1)	(24.1)
Profit after tax	**131.5**	**42.0**	**80.5**	**110.7**	**52.9**	**(23.2)**	**394.4**
Non-controlling interests						0.0	0.0
Net profit	**131.5**	**42.0**	**80.5**	**110.7**	**52.9**	**(23.2)**	**394.4**
Business volumes							
Assets	9,178	3,644	7,527	5,748	6,293	3,318	35,708
Risk-weighted assets	3,827	1,897	3,087	4,565	1,785	1,373	16,534

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

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

in EUR million	2016	2015
Gains and losses on financial instruments according to segment report	19.1	64.8
Gains and losses on financial assets attributable to non-controlling interests	–	–
Gains and losses on financial assets and liabilities according to Consolidated Profit or Loss Statement	**19.1**	**64.8**

in EUR million	2016	2015
Other operating income and expenses according to segment report	48.5	(1.2)
Regulatory charges	(43.8)	(35.2)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**4.7**	**(36.4)**

in EUR million	2016	2015
Profit before tax according to segment report	470.4	418.5
Gains and losses on financial assets attributable to non-controlling interests	–	–
Profit before tax according to Consolidated Profit or Loss Statement	**470.4**	**418.5**

CAPITAL MANAGEMENT

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

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

As part of the SREP (Supervisory Review and Evaluation Process) within the JRAD (Joint Risk Assessment and Decision) framework and in accordance with the Comprehensive Bank Assessment of the ECB, the overall risk management process of Promontoria Sacher Holding N.V. Group was reviewed in detail. As a result, it was concluded that the level of own funds held within Promontoria Sacher Holding N.V. Group with respect to its financial situation and risk profile is broadly adequate. The official notification also includes the specification of an SREP (Supervisory Review and Evaluation Process) ratio at the level of Promontoria Sacher Holding N.V. Group, which requires the maintenance of minimum capital ratios in pillar 1 to meet the requirements for pillar 2.

In addition to the minimum capital ratios required by the regulators, BAWAG P.S.K. defines early warning and recovery levels in Promontoria Sacher Holding N.V.'s recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Resolution and Recovery Act").

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

The budgeted business volumes are also compared with the expected movements in the eligible own funds at the beginning of every financial year. In addition to the risk-weighted assets from credit risk, the calculation also includes the own funds requirement for market and operational risk. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

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

Additionally, the Capital Management Team tracks all new regulatory changes, e.g. MREL and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank is presented to the respective division heads and board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

BAWAG P.S.K. manages the Group's capital position based on a fully loaded CRR environment and therefore without the benefit of any transitional rules regarding capital components and the calculation of risk-weighted assets. The Capital Management Team gives recommendations to the Managing Board of BAWAG P.S.K. AG for strengthening the own funds coverage when necessary and reports to the Bank's Enterprise Risk Meeting once a month.

Regulatory reporting is performed on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group as the EU parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds of Promontoria Sacher Holding N.V. Group and BAWAG Holding Group applying transitional rules and its own funds requirement as per 31 December 2016 and 31 December 2015 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	Promontoria		BAWAG Holding	
in EUR million	31.12.2016[3]	31.12.2015	31.12.2016[3]	31.12.2015
Share capital and reserves (including funds for general banking risk)	3,121	2,837	3,158	2,988
Not yet distributed dividend for 2015[1]	(25)	(286)	0	(313)
Deduction of intangible assets	(190)	(116)	(190)	(116)
Other comprehensives income	(30)	(33)	(30)	(33)
IRB risk provision shortfalls	(19)	(20)	(19)	(20)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(47)	(56)	(47)	(56)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences[2]	(100)	(13)	(100)	(13)
Excess of deduction from AT1 items over AT1 capital	(133)	(189)	(133)	(189)
Common Equity Tier I	**2,577**	**2,124**	**2,639**	**2,248**
IRB risk provision shortfalls	(6)	(15)	(6)	(15)
Deduction of intangible assets	(127)	(174)	(127)	(174)
Excess of deduction from AT1 items over AT1 capital	133	189	133	189
Additional Tier I	**0**	**0**	**0**	**0**
Tier I	**2,577**	**2,124**	**2,639**	**2,248**
Supplementary and subordinated debt capital	484	477	484	477
Excess IRB risk provisions	24	16	24	16
Less significant investments, IRB risk provision shortfalls	(26)	(36)	(26)	(36)
Tier II	**482**	**457**	**482**	**457**
Own funds	**3,059**	**2,581**	**3,121**	**2,705**

1) Dividends for 2015: In the third quarter 2016, BAWAG Holding paid a dividend of EUR 309 million to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding GmbH. Promontoria Sacher Holding N.V. paid a dividend of EUR 265 million to its shareholders. Another EUR 25 million have not yet been paid out but deducted from CET1 as a foreseeable dividend.

2) For the changes in deferred tax assets that rely on future profitability excluding those arising from temporary differences, please see the description on page 97.

3) Own funds as of 31 December 2016 differ from those as of 31 December 2015 inter alia because of different CRR transitional rules for 2016 and 2015 for the eligibility of capital (mainly available-for-sale reserve) and deductions from own funds (mainly intangible assets and IRB risk provision shortfall).

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

	Promontoria		BAWAG Holding	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Credit risk[1]	15,423	14,751	15,426	14,747
Market risk	59	97	59	97
Operational risk	1,633	1,620	1,633	1,620
Capital requirements (risk-weighted assets)	**17,115**	**16,468**	**17,118**	**16,464**

1) Prior-year figures were adjusted due to the reclassification of Holding customers.

Supplemental information on a fully loaded basis

	Promontoria		BAWAG Holding[1)]	
	31.12.2016	31.12.2015[2)]	31.12.2016	31.12.2015[2)]
Common Equity Tier 1 capital ratio based on total risk	14.8%	12.2%	15.1%	12.9%
Total capital ratio based on total risk	17.6%	15.0%	18.0%	15.8%

1) Figures as shown in the Group Management Report.
2) Prior-year figures were adjusted due to the reclassification of Holding customers.

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	31.12.2016	31.12.2015[1)]	31.12.2016	31.12.2015[1)]
Common Equity Tier 1 capital ratio based on total risk	15.1%	12.9%	15.4%	13.7%
Total capital ratio based on total risk	17.9%	15.7%	18.2%	16.4%

1) Prior-year figures were adjusted due to the reclassification of Holding customers.

During the financial year 2016, BAWAG P.S.K. always complied with the imposed capital requirement of 4.5% for Common Equity Tier 1 ratio and of 8% for total capital ratio according to CRR.

BAWAG P.S.K. has managed its capital structure on a fully loaded basis from the very beginning, not taking into account any transitional rules. Our target CET1 ratio in 2016 was 12% on a fully loaded basis. We delivered a much stronger ratio, coming in at 14.8%. Going forward, we will continue to maintain a fully loaded CET1 ratio above 12%.

FURTHER DISCLOSURES REQUIRED BY IFRS

33 | Fair value

The following table depicts the fair values of the Statement of Financial Position items. These are the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. If market prices were available on a stock exchange or other functioning market, they were used.

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 P.S.K.), 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 measurement of fair value of customer business was carried out by applying credit spreads for each customer category. The blanket credit spreads are applied for the following customer categories: credit institutions, commercial customers, public sector and private customers, for which mortgage loans and other loans are considered separately. The credit spreads in customer business are derived by analyzing both external data (market developments and OeNB statistics) and internal default statistics.

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.

In 2016, the portion of change in fair values of securities issued by BAWAG P.S.K. accounted for solely by changes in our credit spreads was minus EUR 5.9 million (minus EUR 7.3 million as of 31 December 2015). As of 31 December 2016, the cumulative fair value change resulting from changes in our credit rating amounted to EUR 17.7 million (EUR 24.6 million as of 31 December 2015).

A one basis point narrowing of the credit spread is expected to change their valuation by minus EUR 0.2 million (minus EUR 0.3 million as of 31 December 2015).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus EUR 0.7 million as of 31 December 2016 (minus EUR 0.3 million as of 31 December 2015) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus EUR 1.3 million (minus EUR 6.5 million as of 31 December 2015). A one basis point narrowing of the credit spread is expected to change their valuation by plus EUR 0.10 million (plus EUR 0.11 million as of 31 December 2015).

Fair values of selected items on the Statement of Financial Position

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

in EUR million	Carrying amount 31.12.2016	Fair value 31.12.2016	Carrying amount 31.12.2015	Fair value 31.12.2015
Assets				
Cash reserves	1,020	1,020	809	809
Financial assets designated at fair value through profit or loss	202	202	303	303
Available-for-sale financial assets				
Recognized at fair value	3,129	3,129	2,665	2,665
Recognized at cost	80	n/a	80	n/a
Held-to-maturity investments	2,353	2,448	2,290	2,369
Assets held for trading	652	652	950	950
Loans and receivables	30,821	31,298	27,396	27,543
Hedging derivatives	677	677	469	469
Property, plant and equipment	53	n/a	59	n/a
Investment properties	3	5	4	6
Intangible non-current assets	360	n/a	329	n/a
Other assets	393	n/a	345	n/a
Assets in disposal groups	–	n/a	9	n/a
Total assets	**39,743**		**35,708**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,115	1,115	1,269	1,269
Liabilities held for trading	617	617	1,071	1,071
Financial liabilities at amortized cost	32,962	33,261	28,514	28,755
Financial liabilities associated with transferred assets	300	300	621	621
Valuation adjustment on interest rate risk hedged portfolios	223	223	169	169
Hedging derivatives	260	260	106	106
Provisions	404	n/a	419	n/a
Other obligations	726	n/a	582	n/a
Obligations in disposal groups	–	n/a	–	n/a
Equity	3,134	n/a	2,956	n/a
Non-controlling interests	2	n/a	1	n/a
Total liabilities and equity	**39,743**		**35,708**	

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.

The available-for-sale financial assets include EUR 80 million in investments in private and public limited companies. The fair value of these financial instruments has not been disclosed because their fair value cannot be measured reliably. There is no active market for these financial instruments and future cash flows cannot be calculated reliably. BAWAG P.S.K. does not intend to sell or derecognize significant investments in equity held at the reporting date in the near future.

Securities recognized in the line items Held to maturity investments and Loans and receivables are measured at amortized cost. Therefore, their book value does not include unrealized gains in the amount of EUR 130 million.

Furthermore, own issues recognized in the line item Financial liabilities designated at amortized cost do not include unrealized losses in the amount of EUR 270 million.

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:** The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.
- **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.
- **Other:** This pertains to stakes in non-consolidated subsidiaries that are classified as available-for-sale.

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

					31.12.2016
in EUR million	**Level 1**	**Level 2**	**Level 3**	**Others[1)]**	**Total**
Assets				–	
Financial assets designated at fair value through profit or loss	2	199	1	–	**202**
Available-for-sale financial assets	2,949	179	1	80	**3,209**
Held-to-maturity investments	2,436	12	–	–	**2,448**
Assets held for trading	–	652	–	–	**652**
Loans and receivables	–	2,436	28,862	–	**31,298**
Hedging derivatives	–	677	–	–	**677**
Investment properties			5		**5**
Total fair value assets	**5,387**	**4,155**	**28,869**	**80**	**38,491**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	638	477	–	**1,115**
Liabilities held for trading	–	617	–	–	**617**
Financial liabilities at amortized cost	–	6,654	26,607	–	**33,261**
Financial liabilities associated with transferred assets		300	–	–	**300**
Valuation adjustment on interest rate risk hedged portfolios	–	223	–	–	**223**
Hedging derivatives	–	260	–	–	**260**
Total fair value liabilities	**–**	**8,692**	**27,084**	**–**	**35,776**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.

in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
					31.12.2015
Assets					
Financial assets designated at fair value through profit or loss	3	298	2	–	**303**
Available-for-sale financial assets	2,587	74	4	80	**2,745**
Held-to-maturity investments	2,364	5	–	–	**2,369**
Assets held for trading	–	950	–	–	**950**
Loans and receivables	–	2,134	25,409	–	**27,543**
Hedging derivatives	–	469	–	–	**469**
Investment properties			6		**6**
Total fair value assets	**4,954**	**3,930**	**25,421**	**80**	**34,385**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	801	468	–	**1,269**
Liabilities held for trading	–	1,071	–	–	**1,071**
Financial liabilities at amortized cost	–	5,898	22,857	–	**28,755**
Financial liabilities associated with transferred assets		621	–	–	**621**
Valuation adjustment on interest rate risk hedged portfolios	–	169	–	–	**169**
Hedging derivatives	–	106	–	–	**106**
Total fair value liabilities	**–**	**8,666**	**23,325**	**–**	**31,991**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.

BAWAG P.S.K. 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 2016, seven available-for-sale securities were moved from Level 1 to Level 2 due to subsequent illiquid market prices. In 2015, one available-for-sale security was moved from Level 1 to Level 2 due to subsequent illiquid market prices. Five available-for-sale securities were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 Financial Instruments Measured at Fair Value

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

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2016	**2**	**4**	**468**
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	–	–	(12)
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	–	1	–
Redemptions	(1)	(4)	(40)
Sales	–	–	–
Foreign exchange differences	–	–	–
Change in scope of consolidation	–	–	61
Transfers into or out of Level 3	–	–	–
Closing balance as of 31.12.2016	**1**	**1**	**477**

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2015	**4**	**–**	**525**
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	1	–	(19)
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	–	4	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	–	–
Redemptions	(2)	–	(38)
Sales	–	–	–
Foreign exchange differences	–	–	–
Transfers into or out of Level 3	–	–	–
Closing balance as of 31.12.2015	**2**	**4**	**468**

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.

Holdings in the amount of EUR 5 million that were reported as Level 3 financial instruments on 31 December 2015 were redeemed in the financial year 2016. Financial liabilities in the amount of EUR 40 million that were reported under Level 3 in 2015 were redeemed in the financial year 2016.

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 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 is currently 100 basis points (prior year: 65 basis points) for all maturities (mid).

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.

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; BAWAG P.S.K. had Level 3 financial assets recognized at their fair value in the amount of EUR 2 million as of 31 December 2016. If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 31 December 2016 would have increased by EUR 2.0 million (31 December 2015: EUR 2.9 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 31 December 2016 would have decreased by EUR 0.6 million (31 December 2015: minus EUR 1.8 million).

34 | Treatment of day one gain

IAS 39.AG76 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.

The initial recognition is based on the fair value of the acquired loans and receivables determined through a DCF-method taking into considerations 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. IAS 39 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 P.S.K. is of the view that this regular amortization income is similar to interest income. From an economic point of view, BAWAG P.S.K. earns a higher margin on the loans acquired.

Consequently, BAWAG P.S.K. presents the systematic amortization of day profits in the line item Interest income.

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

in EUR million	**31.12.2016**	**31.12.2015**
Balance at the beginning of the period	**45**	–
New transactions[1)]	76	45
Amounts recognized in profit or loss during the period	(11)	–
FX effects	(6)	–
Balance at the end of the period	**104**	**45**

1) In the fourth quarter 2016, BAWAG P.S.K. acquired a high-quality performing residential mortgage portfolio in Western Europe consisting of EUR 1.4 billion in assets.

35 | Receivables from and payables to subsidiaries and associates

BAWAG P.S.K.'s receivables from and payables to non-consolidated subsidiaries and associates were as shown below. Business relationships with these entities were subject to normal banking terms and conditions.

Receivables from and payables to subsidiaries

in EUR million	31.12.2016	31.12.2015
Receivables from customers	48	58
Receivables from subsidiaries	**48**	**58**
Deposits from customers	11	32
Payables to subsidiaries	**11**	**32**

Interest income from business with subsidiaries in 2016 totaled EUR 3 million (2015: EUR 3 million) and interest expense EUR 1 million (2015: EUR 1 million).

Receivables from and payables to associates

in EUR million	31.12.2016	31.12.2015
Receivables from customers	136	142
Securities	20	23
Receivables from associates	**156**	**165**
Deposits from customers	44	79
Payables to associates	**44**	**79**

36 | Related parties

Owners of BAWAG Holding GmbH

BAWAG Holding GmbH is wholly owned by the Dutch financial holding company Promontoria Sacher Holding N.V. The shareholder structure of Promontoria Sacher Holding N.V. is as follows: (i) 52.14% is held by various funds that are connected with Cerberus, (ii) 39.77% is held by various funds and customer accounts that are managed by GoldenTree and (iii) the remaining shares are held by a variety of Austrian and non-Austrian minorities.

Major non-fully consolidated subsidiaries, joint ventures and equity investments of BAWAG P.S.K.

BAWAG P.S.K. Versicherung AG

BAWAG P.S.K. indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K. Versicherung AG is accounted for using the equity method in BAWAG P.S.K.'s accounts. The business dealings between BAWAG P.S.K. and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG P.S.K. and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

PSA Payment Services Austria GmbH

BAWAG P.S.K. holds 20.82% in PSA Payment Services Austria GmbH. PSA is owned by several Austrian banks and banking groups and is engaged in the service and the organization of the ATM card business. PSA is accounted for using the equity method in BAWAG P.S.K.'s accounts.

Other subsidiaries

Please refer to Note 49 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties:

in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	At-equity associates	Other companies
					31.12.2016
Loans and receivables – customers	6	808	48	0	139
Securities	–	43	–	20	–
Other assets (incl. derivatives)	36	0	6	–	–
Financial liabilities – customers	–	0	11	113	10
Other liabilities (incl. derivatives)	–	0	–	1	–
Guarantees provided	–	–	–	–	1
Interest income[1)]	–	31.6	1.7	0.3	2.6
Interest expense	–	0.8	0.0	1.5	0.0
Net fee and commission income	–	–	0.0	18.0	0.6

1) Gross income; hedging costs not offset.

in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	At-equity associates	Other companies
					31.12.2015
Loans and receivables – customers	–	1,134	58	–	145
Securities	–	–	–	22	–
Other assets (incl. derivatives)	20	–	7	–	–
Financial liabilities – customers	–	–	13	155	11
Other liabilities (incl. derivatives)	–	–	–	2	–
Guarantees provided	–	–	–	–	2
Interest income[1)]	–	54.9	1.9	0.3	3.2
Interest expense	–	–	0.1	2.3	–
Net fee and commission income	–	–	–	25.1	0.7

1) Gross income; hedging costs not offset.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to EUR 0.0 million in 2016 (2015: EUR 0.0 million).

Regarding related party transactions, no write-offs or loan loss provisions were required.

Information regarding natural persons

Key management

Key management of BAWAG P.S.K. refers to the members of the Managing Board and the Supervisory Board of BAWAG Holding GmbH and BAWAG P.S.K. AG. Total personnel expenses for the key management amount to EUR 26.4 million (2015: EUR 26.6 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Managing Board of BAWAG P.S.K. AG and BAWAG Holding GmbH during the financial year amounted to EUR 25.6 million (2015: EUR
16.2 million). Of this amount, EUR 4.5 million have been reimbursed by the shareholder Promontoria Sacher Holding N.V. (2015: EUR 4.0 million).

Expenditures for severance pay for the Managing Board came to EUR 0.0 million (2015: EUR 1.4 million).

At 31 December 2016, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members of BAWAG P.S.K. AG.

Payments of post-employment benefits to former members of the Managing Board and their surviving dependents came to EUR 2.0 million (2015: EUR 2.0 million).

As of the reporting date, there was no outstanding lease financing but there were three outstanding loans to members of the Managing Board in the amount of EUR 0.6 million (2015: EUR 0.6 million). In addition there exists an undrawn credit line in the amount of EUR 0.7 million (2015: EUR 0.0 million). Loans or leasing financing to members of the Supervisory Board totaled EUR 0.0 million (2015: EUR 0.1 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Managing Board and Supervisory Board members made use of current account limits in the amount of EUR 0 million (2015: EUR 0 million) as of the reporting date. Turnovers of credit cards guaranteed to third parties by the Bank that belong to Managing Board members amounted to EUR 0 million in December 2016 (2015: EUR 0 million). Turnovers of guaranteed credit cards that belong to members of the Supervisory Board amounted to EUR 0 million in December 2016 (2015: EUR 0 million).

A list of the Bank's Boards and Officers can be found in an appendix to the Notes.

The remuneration scheme for Supervisory Board members of BAWAG P.S.K. AG approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive EUR 60,000 per calendar year, the Deputy Chairman shall receive EUR 40,000 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive EUR 30,000 per calendar year. The chairmen of the Risk and Credit and Audit and Compliance Committees each receive EUR 20,000 and all other members of the Risk and Credit and Audit and Compliance Committees each receive EUR 10,000 (these additional compensation measures do not apply for the Chairman of the Supervisory Board). Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to EUR 0.4 million in 2016 (2015: EUR 0.4 million). Works Council delegates to the Supervisory Board do not receive any remuneration. Remuneration of members of the Supervisory Board of BAWAG Holding GmbH amounted to EUR 0.4 million (2015: EUR 0.3 million).

Two members of the Supervisory Board of BAWAG Holding GmbH had a consulting agreement with BAWAG Holding GmbH in 2016. The expenses for 2016 amounted to EUR 4.4 million (2015: EUR 2.3 million).

Promontoria Sacher Holding N.V. granted an award agreement for share appreciation rights (SARs) indexed to Promontoria Sacher Holding N.V. stock to the Managing Board members, select senior employees and certain members of the Supervisory Board of the Bank beginning from the financial year 2013. The Bank was not a party to the transaction agreement.

According to IFRS 2.43B, the total value of these SARs was treated as a shareholder contribution (equity settled) with a corresponding increase in compensation expense, as BAWAG P.S.K. had no obligation to settle the share-based payment transaction. The value shown under equity amounts to EUR 24.4 million (2015: EUR 24.4 million), representing the total value of SARs. In the financial year 2016, no expense for SARs was recognized in profit or loss (2015: EUR 8.0 million).

Business relations with related party individuals

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 EUR million	Key management of the entity or its parent 31.12.2016	Other related parties 31.12.2016	Key management of the entity or its parent 31.12.2015	Other related parties 31.12.2015
Current account deposits	10	3	4	1
Savings deposits	0	3	0	3
Loans	1	3	1	2
Leasing	0	0	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

Not all managerial staff are entitled to post-employment benefits from the Bank. The managerial employees who are entitled to post-employment benefits from the Bank were awarded these entitlements under the provisions of the 1961 pension reform or on the basis of individual commitments by the Bank. All employees are entitled to pension benefits from a pension fund under the provisions of the collective bargaining agreement for pension funds (defined contribution plan).

37 | Major changes in the Group's holdings

BAWAG Malta

The sale of BAWAG Malta Bank, initiated in 2015, was closed on 29 January 2016.

easybank Group

With effect of 28 September 2016, VB Technologie Finanzierungs GmbH was merged with its parent company VB Leasing Finanzierungsgesellschaft m.b.H. (VBLF) as the absorbing company and with effect of 30 September 2016, VBLF was renamed to easyleasing GmbH.

Acquisition of start:bausparkasse AG and IMMO-BANK AG

Effective 23 June 2016, the signing of the acquisition of 100% of the voting shares in start:bausparkasse AG and 100% of the voting shares in IMMO-BANK AG from Volksbanken-Verbund took place. After the fulfillment of all contractual requirements and customary closing conditions, the acquisition was closed on 1 December 2016, representing the acquisition date according to IFRS.

The acquisition of start:bausparkasse will give BAWAG P.S.K. a significant presence in the building society savings and loans sector, while IMMO-BANK will expand the Bank's reach with social housing associations and real estate companies. Both banks combine the expertise and long-standing tradition of two specialists in the housing and real estate finance sector and will thus make a significant contribution to the expansion of the domestic retail franchise.

The following disclosures are based on preliminary results of the accounting for the above described business combination as the closing of the acquisition took place shortly before the balance sheet date. The preliminary parts concern mainly the valuation of intangible assets which is performed by an external advisor. In case that we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently the Group does not expect any major impacts.

According to IFRS 3, the consolidation result was recognized in the Profit or Loss Statement in the line item Other operating income and expenses.

This gain reflects the recognition of positive temporary net present value effects. The acquired companies recognized restructuring expenses (including restructuring reserves) in the amount of EUR 36 million in December 2016.

The total consideration transferred at the date of acquisition was paid in cash and amounted to EUR 190 million, of which EUR 66 million were paid to start:bausparkasse for their 74.26% share in

IMMO-BANK. Of the total consideration transferred, EUR 124 million were paid to companies outside the Group. EUR 14 million of the total consideration transferred will be paid in 2017.

The Group incurred acquisition-related costs of EUR 0.4 million in legal fees, audit fees and due diligence costs. These costs have been included in the line item Other administrative expenses.

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

in EUR million	**2016**
Cash reserves	93
Loans and receivables	3,664
Customers	2,828
Credit institutions	851
Loan loss provisions	(15)
Held-to-maturity investments	3
Intangible non-current assets	12
Tax assets for current taxes	1
Tax assets for deferred taxes	3
Other assets	3
Financial liabilities designated at fair value through profit or loss	89
Financial liabilities held for trading	2
Financial liabilities at amortized cost	3,283
Customers	2,106
Issued bonds, subordinated and supplementary capital	496
Credit institutions	681
Provisions	18
Tax liabilities for current taxes	14
Tax liabilities for deferred taxes	32
Other obligations	26
Total identifiable net assets acquired	**316**
Total consideration transferred	**190**
Consolidation result[1)]	***126***

1) Recognized in other operating income and expenses.

For the months from the acquisition date until 31 December 2016 (i.e. 1 month), the acquired companies contributed core revenues (net interest income and net commission income) of EUR 1.2 million and profit of EUR 0.5 million (without restructuring expenses). If the acquisition had occurred on 1 January 2016, the companies would have contributed core revenues of EUR 37.2 million and profit of EUR 11.8 million (without restructuring expenses).

The acquired loans and receivables from customers in the amount of EUR 2,813 million represent the fair value as of the acquisition date. Additionally, loans and receivables from credit institutions in the amount of EUR 851 million were acquired. The gross amounts of loans and receivables from customers amounted to EUR 2,828 million and the contractual cash flows not expected to be collected amounted to EUR 15 million.

Other major changes in the Group's holdings

Bodensee Ltd. was dissolved and stricken from the companies register on 27 January 2016.

With effect of 30 September 2016, the two Czech companies BAWAG Real Estate Leasing s.r.o. and BPL CZ One s.r.o. were merged with the Czech-based BAWAG Leasing & fleet s.r.o. as the absorbing company.

In the course of the incorporation of Wohnbauinvestitionsbank GmbH on 1 October 2016, BAWAG P.S.K. Wohnbaubank AG took over a marginal stake of 0.83%.

In November and December 2016, BAWAG P.S.K. sold a total stake of 28.3% in Einlagensicherung der Banken und Bankiers GmbH Group internally as well as to a third party, so that the share of BAWAG P.S.K. decreased to 36.03%.

With effect of 23 December 2016, media.at GmbH purchased the remaining 49% in pilot@media.at GmbH, bringing its share to 100%. BAWAG P.S.K. has a share of approximately 26.3% in media.at GmbH.

For further details, please refer to Notes 48 and 49.

38 | Assets pledged as collateral

in EUR million	31.12.2016	31.12.2015
Receivables and securities assigned to Oesterreichische Kontrollbank AG	409	472
Collateral pledged to the European Investment Bank	376	519
Cover pool for trust savings deposits	22	23
Cover pool for covered bonds	3,077	2,186
Collateral for RMBS	878	–
Collateral for tender facilities	871	2,319
Other collateral	20	16
Cash collateral for derivatives	163	314
Assets pledged as collateral	**5,816**	**5,849**

The Group pledges assets for repurchase agreements which are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities.

Regarding export financing, receivables and securities assigned to Oesterreichische Kontrollbank AG are pledged.

Pledges for trust savings deposits are conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG).

Additionally, relevant collateral was provided for refinancing at the European Investment Bank.

39 | Total collateralized debt

The collateral listed in the table above corresponded to the following payables of BAWAG P.S.K.:

in EUR million	31.12.2016	31.12.2015
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	371	472
Payables arising due to refinancing by the European Investment Bank	370	389
Trust savings deposits	19	19
Payables secured by the cover pool for covered bonds	2,078	1,227
RMBS	584	–
Tender facilities	700	1,897
Negative market values of derivatives	105	317
Total collateralized debt	**4,227**	**4,321**

40 | Genuine repurchase agreements

in EUR million	31.12.2016	31.12.2015
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	300	621
Repurchase agreements	**300**	**621**

41 | Transferred assets that are not derecognized in their entirety

	Financial assets designated at fair value through profit or loss	
in EUR million	**31.12.2016**	**31.12.2015**
Carrying amount of transferred assets[1)]	340	664
Carrying amount of associated liabilities	300	621

1) All of the transferred assets are bonds.

Transferred assets that are not derecognized in their entirety relate to genuine repurchase agreements. Since BAWAG P.S.K. is still the owner of the transferred assets, it remains exposed to market, interest rate, currency and credit risk with regard to these assets. The transferred assets are blocked for sale and are not taken into account in the liquidity calculation.

42 | Subordinated assets

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

in EUR million	31.12.2016	31.12.2015
Loans and receivables	8	53
Subordinated assets designated at fair value through profit or loss	6	8
Subordinated assets designated as available-for-sale	153	109
Subordinated assets	**167**	**170**

43 | Offsetting financial assets and financial liabilities

BAWAG P.S.K. enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG P.S.K. currently does not have any legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in BAWAG P.S.K.'s Statement of Financial Position; or
- are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

						31.12.2016
				Amounts not offset in the Statement of Financial Position		
in EUR million	**Gross amounts of recognized financial assets**	**Gross amounts of financial liabilities offset in the Statement of Financial Position**	**Net amounts of financial assets presented in the Statement of Financial Position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives (excl. hedging derivatives)	652	–	652	278	254	**120**
Hedging derivatives	677	–	677	446	207	**24**
Loans to and receivables from customers	243	127	116	–	–	**116**
Total	**1,572**	**127**	**1,445**	**724**	**461**	**260**

in EUR million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral received	Net amount
						31.12.2015
Derivatives (excl. hedging derivatives)	950	–	950	476	294	**180**
Hedging derivatives	469	–	469	346	110	**13**
Loans to and receivables from customers	682	115	567	–	–	**567**
Total	**2,101**	**115**	**1,986**	**822**	**404**	**760**

Financial liabilities

in EUR million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral pledged	Net amount
						31.12.2016
Derivatives (excl. hedging derivatives)	617	–	617	548	50	**19**
Hedging derivatives	260	–	260	209	50	**1**
Repo transactions	300	–	300	300	–	**–**
Customer deposits	127	127	–	–	–	**–**
Total	**1,304**	**127**	**1,177**	**1,057**	**100**	**20**

in EUR million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral pledged	Net amount
						31.12.2015
Derivatives (excl. hedging derivatives)	1,071	–	1,071	762	287	**22**
Hedging derivatives	106	–	106	81	25	**–**
Repo transactions	621	–	621	621	–	**–**
Customer deposits	115	115	–	–	–	**–**
Total	**1,913**	**115**	**1,798**	**1,464**	**312**	**22**

The following tables reconcile the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position to the respective line items in the Statement of Financial Position:

Financial assets

				31.12.2016
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	652	–	652
Hedging derivatives	Hedging derivatives	677	–	677
Loans to and receivables from customers	Loans to and receivables from customers	28,494	28,378	116
Total		**29,823**	**28,378**	**1,445**

				31.12.2015
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	950	–	950
Hedging derivatives	Hedging derivatives	469	–	469
Loans to and receivables from customers	Loans to and receivables from customers	24,713	24,146	567
Total		**26,132**	**24,146**	**1,986**

Financial liabilities

				31.12.2016
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	617	–	617
Hedging derivatives	Hedging derivatives	260	–	260
Repo transactions	Financial liabilities associated with transferred assets	300	–	300
Customer deposits	Deposits from customers	25,998	25,998	–
Total		**27,175**	**25,998**	**1,177**

				31.12.2015
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	1,071	–	1,071
Hedging derivatives	Hedging derivatives	106	–	106
Repo transactions	Financial liabilities associated with transferred assets	621	–	621
Customer deposits	Deposits from customers	21,692	21,692	–
Total		**23,490**	**21,692**	**1,798**

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

in EUR million	31.12.2016	31.12.2015
Contingent assets	–	–
Contingent liabilities	**193**	**349**
Arising from guarantees	193	349
Unused customer credit lines	**4,567**	**5,467**
thereof terminable at any time and without notice	3,174	4,196
thereof not terminable at any time	1,393	1,271

45 | Foreign currency amounts

BAWAG P.S.K. Group had assets and liabilities in the following foreign currencies:

in EUR million	31.12.2016	31.12.2015
USD	2,754	2,520
CHF	1,953	2,166
GBP	3,176	3,789
Other	269	93
Foreign currency	**8,152**	**8,568**
EUR	**31,591**	**27,140**
Total assets	**39,743**	**35,708**
USD	423	554
CHF	330	19
GBP	917	154
Other	196	232
Foreign currency	**1,866**	**959**
EUR	**37,877**	**34,749**
Total liabilities	**39,743**	**35,708**

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

46 | Leasing

Finance leasing from the view of BAWAG P.S.K. as lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG P.S.K. leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

				31.12.2016
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	434	758	79	**1,271**
As yet unrealized financial income	27	38	4	**69**
Receivables from finance leases (net investment value)	**407**	**720**	**75**	**1,202**

				31.12.2015
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	359	748	108	**1,215**
As yet unrealized financial income	21	45	6	**72**
Receivables from finance leases (net investment value)	**338**	**703**	**102**	**1,143**

As of 31 December 2016, the non-guaranteed residual value amounts to EUR 42 million (2015: EUR 40 million).

There were no impairments recognized in respect of irrecoverable minimum lease installments (2015: EUR 0.0 million).

Operating leasing from the view of BAWAG P.S.K. as lessee

The Group leases the majority of its offices and branches under various rental agreements. The lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

Future minimum lease payments required under operating leases

in EUR million	**31.12.2016**	**31.12.2015**
Future minimum rental payments		
Not later than one year	23	23
Over one year and not later than five years	41	64
Over five years	136	96
Total future minimum rental payments	**200**[1)]	**183**
less: Future minimum rentals to be received	1	2
Net future minimum rental payments	**199**	**181**
Rental payments for lease agreements	(23)	(24)
Rental income from sublease contracts	2	2

1) Gross future minimum rental payments amount to EUR 242 million.

47 | Derivative financial transactions

Derivative financial transactions as of 31.12.2016

							31.12.2016
		Nominal amount/maturity[1]				Fair value[1]	
in EUR million		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**3,785**	**16,084**	**13,044**	**32,913**	**1,166**	**(472)**
Thereof	interest rate swaps banking book	2,369	12,550	10,963	25,882	909	(343)
	interest rate options banking book	20	212	454	686	47	(32)
	forward rate agreements banking book	100	–	–	100	–	–
	interest rate swaps trading book	765	2,180	1,422	4,367	168	(74)
	interest rate options trading book	531	1,142	205	1,878	42	(23)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**4,477**	**2,512**	**1,513**	**8,502**	**157**	**(400)**
Thereof	currency swaps banking book	471	2,427	1,360	4,258	71	(299)
	foreign currency forward transactions and options banking book	2,892	84	153	3,129	66	(55)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	1,114	1	–	1,115	20	(46)
Securities related business		**22**	**60**	**38**	**120**	**6**	**(5)**
Thereof	securities related business banking book	22	60	38	120	6	(5)
Total		**8,284**	**18,656**	**14,595**	**41,535**	**1,329**	**(877)**
Thereof	banking book business	5,874	15,333	12,968	34,175	1,099	(734)
	trading book business	2,410	3,323	1,627	7,360	230	(143)

1) Banking book derivatives include fair value hedging instruments.

Derivative financial transactions as of 31.12.2015

						31.12.2015
	Nominal amount/maturity[1]				Fair value[1]	
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business	**7,405**	**15,656**	**11,338**	**34,399**	**1,164**	**(527)**
Thereof interest rate swaps banking book	6,195	10,661	9,134	25,989	889	(374)
interest rate options banking book	12	231	300	543	17	(14)
forward rate agreements banking book	–	–	–	–	–	–
interest rate swaps trading book	828	3,295	1,468	5,592	205	(103)
interest rate options trading book	370	1,469	436	2,275	53	(35)
forward rate agreements trading book	–	–	–	–	–	–
Currency related business	**9,263**	**2,795**	**803**	**12,861**	**250**	**(645)**
Thereof currency swaps banking book	1,275	1,559	659	3,493	20	(436)
foreign currency forward transactions and options banking book	5,419	123	144	5,686	167	(57)
currency swaps trading book	–	–	–	–	–	–
foreign currency forward transactions and options trading book	2,568	1,112	–	3,681	62	(152)
Securities related business	**215**	**76**	**25**	**316**	**5**	**(5)**
Thereof securities related business banking book	215	76	25	316	5	(5)
Total	**16,883**	**18,527**	**12,166**	**47,576**	**1,419**	**(1,177)**
Thereof banking book business	13,116	12,650	10,262	36,028	1,099	(887)
trading book business	3,767	5,877	1,904	11,548	320	(290)

1) Banking book derivatives include fair value hedging instruments.

48 | List of consolidated subsidiaries

	31.12.2016		31.12.2015	
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG Malta Bank Limited, Sliema	–	–	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
easybank AG, Vienna	F	100.00%	F	100.00%
IMMO-BANK Aktiengesellschaft, Vienna	F	100.00%	–	–
start:bausparkasse AG, Vienna	F	100.00%	–	–
Real estate				
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BPI Holding GmbH & Co KG., Vienna	F	100.00%	F	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
Leasing				
ACP IT-Finanzierungs GmbH, Vienna	F	75.00%	F	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH, Vienna (formerly: BAWAG P.S.K. Autoleasing GmbH)	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna (formerly: BAWAG P.S.K. LEASING GmbH)	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
easyleasing GmbH, Vienna (formerly: VB Leasing Finanzierungsgesellschaft m.b.H.)	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
Leasing-west GmbH, Kiefersfelden	F	100.00%	F	100.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
RF 17 BAWAG Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
START Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%
VB Technologie Finanzierungs GmbH, Vienna	–	–	F	100.00%
Other non credit institutions				
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
E2E Kreditmanagement GmbH, Vienna	F	100.00%	F	100.00%
E2E Service Center Holding GmbH, Vienna	F	100.00%	F	100.00%
E2E Transaktionsmanagement GmbH, Vienna	F	100.00%	F	100.00%
FCT Pearl, Pantin	F	100.00%	–	–
Feldspar 2016-1 Mortgage Holding Limited, London[1)]	F	0.00%	–	–
Feldspar 2016-1 PLC, London[1)]	F	0.00%	–	–
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH, Vienna	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	E	20.82%
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%

F … Full consolidation, E … Equity method

1) As these entities are set up for the funding and refinancing of BAWAG P.S.K. and BAWAG P.S.K. determines all contracts and processes, BAWAG P.S.K. has the obligation to consolidate these entities according to IFRS 10.

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

	31.12.2016	31.12.2015
Real estate		
ROMAX Immobilien GmbH, Vienna	100.00%	100.00%
Leasing		
BAWAG Leasing & fleet s.r.o., Bratislava	100.00%	100.00%
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
BAWAG Real Estate Leasing s.r.o., Prague	–	100.00%
BPLCZ One s.r.o., Prague	–	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	50.00%	50.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non credit institutions		
AI-ALTERNATIVE INVESTMENTS LTD., St. Helier	100.00%	100.00%
Athena Burgenland Beteiligungen AG, Eisenstadt	38.30%	38.30%
Athena Wien Beteiligungen AG, Vienna	50.00%	50.00%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
AUSTWEST ANSTALT, Triesen	100.00%	100.00%
BAWAG Finance Malta Ltd., Sliema	100.00%	100.00%
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	100.00%	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	100.00%
Bodensee Limited in Liqu., Sliema	–	51.00%
BV Vermögensverwaltung GmbH, Vienna	100.00%	100.00%
easy green energy GmbH, Vienna	49.00%	49.00%
easy green energy GmbH & Co KG, Vienna	49.00%	49.00%
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	36.03%	61.64%
media.at GmbH, Vienna	26.30%	26.30%
MediaSelect GmbH, Vienna	26.30%	26.30%
mediastrategen GmbH, Vienna	26.30%	26.30%
MF BAWAG Blocker LLC, Wilmington	100.00%	100.00%
OmniMedia GmbH, Vienna	26.30%	26.30%
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%	50.00%
pilot@media.at GmbH	26.30%	12.89%
WBG Wohnen und Bauen Gesellschaft mbH Wien, Vienna	24.00%	24.00%

50 | Involvement with associated companies

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

in EUR million	**31.12.2016**	**31.12.2015**
Carrying amounts of all associates	45	43
Aggregated amount of the Group's share of profit or loss	8.0	(0.5)
Aggregated amount of the Group's share of other comprehensive income	(2.3)	2.2
Aggregated amount of the Group's share of total comprehensive income	5.7	1.7

51 | Non-consolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor for the determination of control over the entity. This is the case, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

– Restricted activities

– A narrow and well-defined objective

– Insufficient equity

– Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements or other means. The Bank's exposure to unconsolidated structured entities comprises leasing companies engaging in special leasing to which BAWAG P.S.K. provides the financing.

The Group provides a different measure for the size of structured entities depending on their nature. Regarding other structured entities, the total assets of these entities in the amount of EUR 103 million (2015: EUR 114 million) best measures their size.

The table below sets out an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

in EUR million	**2016**	**2015**
Carrying amounts of assets in connection with investments in structured entities	**51**	**55**
on the balance sheet shown under Loans and receivables	51	55
Carrying amounts of liabilities in connection with investments in structured entities	**0**	**0**
Income	**0.3**	**0.4**
Interest income	0.3	0.4
Losses incurred during reporting period	0	0
Maximum exposure to loss	51	55

BAWAG P.S.K. neither provided any financial or other support to an unconsolidated securitization vehicle during the financial year nor does it have any current intention to do so.

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG P.S.K. 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 operational 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 changes in regulatory requirements, market conditions as well as products and services offered by the Group.

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

- Strategic Risk
- Commercial and Institutional Risk
- Retail Risk and Administration
- European Retail Risk Management
- Non-Financial Risk Management & Regulatory Compliance

The following risks including their respective sub-risks are considered as material for BAWAG P.S.K.:

- Credit risk
- Market risk
- Liquidity risk
- Operational 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 capability.

The material risks of BAWAG P.S.K. are described on the following pages.

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

The Group's economic risk-bearing capability, 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 capability, the individual and material risks are quantified, subsequently aggregated to the total risk and, in a further step, compared with the 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: The 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 are quantified in Strategic Risk and are controlled operationally in Asset Liability Management.
- Operational risk is quantified using a value-at-risk model.
- Other risks: This risk category includes participation risk, macroeconomic risk, strategic risk, reputation risk, capital risk, compliance risk (including the risk from money laundering and terrorism financing) as well as market liquidity risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk according to a quantification method of Oesterreichische Nationalbank (OeNB, the Austrian national bank). 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 P.S.K.

The link between the stress test program 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.

53 | Credit risk

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

The operative credit risk divisions are specifically set up to ensure functional risk management expertise for both the commercial and institutional and the retail and small business customers. The Strategic Risk division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In the customer segments BAWAG P.S.K. Retail and easygroup, the creditworthiness of private and small business customers is assessed via automated scorecards. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer's account usage. 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 the customer segments BAWAG P.S.K. Retail and easygroup. 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 basis.

BAWAG P.S.K., a banking group that applies the Internal Rating-Based (IRB) approach, sets high standards with regards to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are monitored and validated on a regular basis. Due to the centralized structure and coordination of the Group, new risk regulations or changing market situations are considered in a timely manner within the risk management strategies. The following sections provide an overview of the portfolio quality in the segments

BAWAG P.S.K. Retail and easygroup (shown by days past due and loan to value ratios) and in the segments DACH Corporates & Public Sector and International Business (shown by the proportion of investment and noninvestment grade).

Credit risk and bonds by business segment

							31.12.2016
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**	**Treasury Services & Markets**	**Corporate Center**	**Total portfolio**
Book value	11,558	4,436	7,344	5,242	1,326	368	30,274
Bonds	0	0	446	392	5,366	23	6,227
Off-balance business	1,108	498	1,123	303	314	714	4,060
Total	**12,666**	**4,934**	**8,913**	**5,937**	**7,006**	**1,105**	**40,561**
thereof collateralized[2)]	6,016	3,897	2,403	2,167	193	1	14,677
thereof NPL[3)] (incl. LLP, gross view)	214	92	50	0	0	255	611

							31.12.2015
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**	**Treasury Services & Markets**	**Corporate Center**	**Total portfolio[1)]**
Book value	9,036	3,630	6,935	5,133	1,424	423	26,581
Bonds	0	0	557	615	4,869	22	6,063
Off-balance business	1,334	505	1,198	134	381	386	3,938
Total	**10,370**	**4,135**	**8,690**	**5,882**	**6,674**	**831**	**36,582**
thereof collateralized[2)]	6,051	3,067	2,625	1,258	244	24	13,269
thereof NPL[3)] (incl. LLP, gross view)	186	62	85	0	0	256	588

1) In 2015, the held for sale position is not included. This applies to all tables in the Risk Report.
2) Economic collateral comprises residential and commercial real estate, guarantees, life insurances, etc.
3) Starting from June 2015, a revised definition for non-performing loans is applied. Loans are not included in NPLs if no economic loss is expected.

The table below provides reconciliation between book values of loans and receivables, the Risk Report and the Segment Report

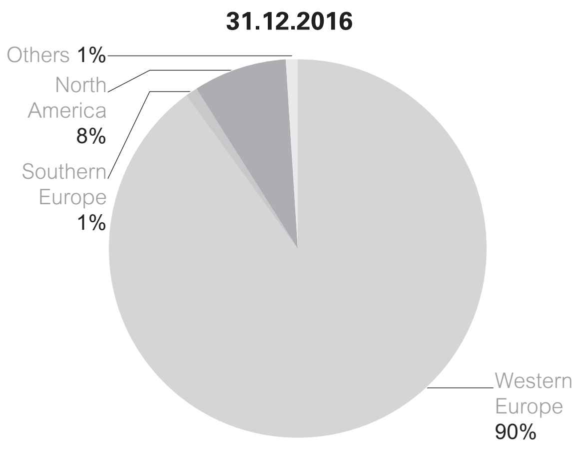
					31.12.2016
	Note 16	Notes 12, 13, 14[1]	Risk view	Segment Report	
in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,558	0	11,558	101	11,659
easygroup	4,436	0	4,436	22	4,458
DACH Corporates & Public Sector	7,580	210	7,790	22	7,812
International Business	5,392	242	5,634	0	5,634
Treasury Services & Markets	1,496	5,195	6,691	0	6,691
Corporate Center	359	32	392	3,098	3,489
Total	**30,821**	**5,680**	**36,501**	**3,242**	**39,743**

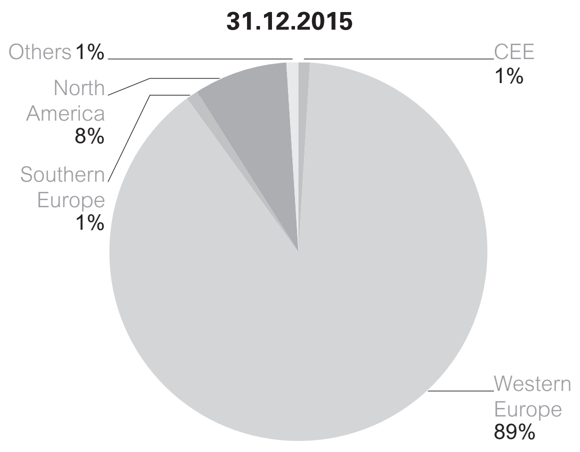
					31.12.2015
	Note 16	Notes 12, 13, 14[1]	Risk view	Segment Report	
in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	9,036	0	9,036	142	9,178
easygroup	3,630	0	3,630	15	3,644
DACH Corporates & Public Sector	7,289	203	7,492	35	7,527
International Business	5,429	319	5,748	0	5,748
Treasury Services & Markets	1,595	4,698	6,293	0	6,293
Corporate Center	418	28	446	2,871	3,317
Total	**27,396**	**5,249**	**32,645**	**3,062**	**35,708**

1) Shares and other variable rate securities (2016: EUR 4 million, 2015: EUR 5 million) are not included.

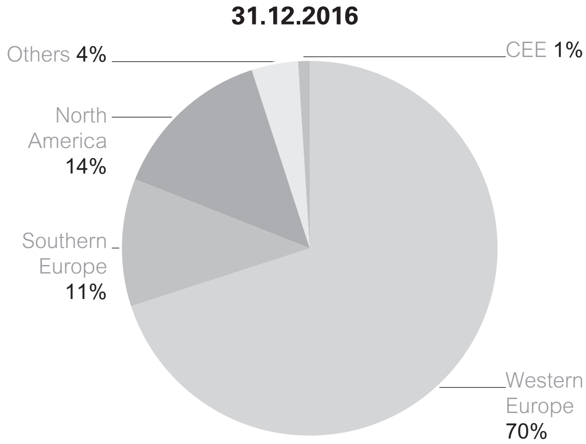
Geographical distribution of the loan and bond portfolio

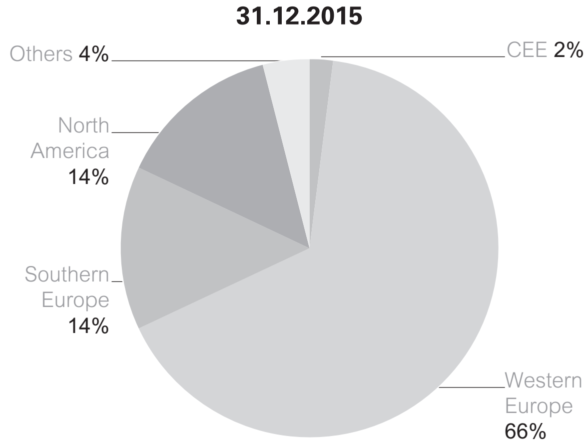
Geographical distribution of loans





Geographical distribution of bonds





Geographical distribution of the loan and bond portfolio – Portugal and Greece (peripheral Europe)

The Bank's exposure in other countries of peripheral Europe contains no substantial risks. The Bank has not had any exposure to Greece since 2012. The exposure in Portugal decreased compared to last year, primarily because non-bank portfolios have been dissolved.

	Book value		Banks		Non-banks		Sovereigns	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Portugal	19	32	19	24	–	8	–	–
Greece	–	–	–	–	–	–	–	–
Total	**19**	**32**	**19**	**24**	**–**	**8**	**–**	**–**

Credit portfolio and bonds by currencies

Consistent with the Bank's overall positioning, the majority of financing is denominated in EUR. The following table captures the currency distribution of the credit portfolio and bond book of the Bank.

	Book value		in %	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
EUR	28,698	24,202	78.6%	74.1%
GBP	2,970	3,775	8.1%	11.6%
USD	2,705	2,473	7.4%	7.6%
CHF	1,863	2,109	5.1%	6.5%
Others	265	87	0.7%	0.3%
Total	**36,501**	**32,646**	**100.0%**	**100.0%**

Credit quality overview: Loans, provisions, delinquencies and collaterals

The following table captures the days past due, NPL ratio and provisioning of the loan portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provision and collateral coverage across the portfolios. More than 82% (2015: 78%) of the total portfolio can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value[1)]		in %	
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Loans and receivables (net)	30,821	27,396	99.5%	99.3%
Individual provisions	205	235	0.7%	0.9%
Loans and receivables (gross)	31,026	27,631	100.2%	100.2%
IBNR	54	46	0.2%	0.2%
Total	**30,972**	**27,585**	**100.0%**	**100.0%**
thereof performing	30,361	26,997	98.0%	97.9%
thereof non-performing[2)]	611	588	2.0%	2.1%
NPL LLP coverage ratio[2)]	–	–	52.4%	62.0%
NPL coverage ratio (collateral + LLP)[2)]	–	–	96.4%	98.3%
Additional information:				
Total unprovisioned outstandings past due	217	335	0.7%	1.2%
1–30 days	58	236	0.2%	0.9%
31–60 days	17	13	0.1%	0.0%
61–90 days	14	8	0.0%	0.0%
91–180 days	10	5	0.0%	0.0%
More than 180 days	117	73	0.4%	0.3%

1) Bonds are not included since the bond portfolio does not show any days past due or any signs of non-performance
2) NPL including City of Linz; NPL LLP coverage ratio and NPL coverage ratio (collateral + LLP) excluding City of Linz.

The following table shows the days past due and the NPL ratio for the segments BAWAG P.S.K. Retail and easygroup as well as DACH Corporates & Public Sector and International Business.

				31.12.2016
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**
Total	**11,558**	**4,436**	**7,790**	**5,634**
1–30 days	0.3%	0.2%	0.2%	–
31–60 days	0.1%	0.2%	–	–
61–90 days	0.1%	0.1%	0.0%	–
NPL ratio[1)]	**1.8%**	**2.1%**	**0.7%**	**–**
NPL LLP coverage ratio	52.9%	34.5%	58.0%	–
NPL coverage ratio (collateral + LLP)	92.8%	99.1%	100.0%	–

				31.12.2015
in EUR million	**BAWAG P.S.K. Retail**	**easygroup**	**DACH Corporates & Public Sector**	**International Business**
Total	**9,035**	**3,630**	**7,492**	**5,748**
1–30 days	0.4%	0.5%	1.9%	–
31–60 days	0.1%	0.1%	–	–
61–90 days	0.0%	0.1%	–	–
NPL ratio[1)]	**2.2%**	**1.1%**	**1.2%**	**–**
NPL LLP coverage ratio	63.5%	50.3%	55.0%	–
NPL coverage ratio (collateral + LLP)	97.3%	100.0%	98.7%	–

1) The NPL ratio reflects a gross perspective.

The following table shows the distribution by ratings for the portfolio which is neither overdue nor impaired. The low risk profile is stable and shows a positive trend toward investment grade ratings.

in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business
					31.12.2016
Rating class 1	12.9%	0.6%	0.4%	45.5%	0.0%
Rating class 2	6.0%	4.6%	0.1%	15.8%	0.1%
Rating class 3	11.1%	14.7%	19.2%	5.5%	6.2%
Rating class 4	46.6%	41.5%	51.7%	21.4%	83.4%
Rating class 5	18.4%	30.0%	20.1%	10.6%	8.5%
Rating class 6	3.7%	6.2%	5.2%	1.1%	1.8%
Rating class 7	1.3%	2.3%	3.2%	0.1%	0.0%

in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business
					31.12.2015
Rating class 1	15.4%	0.8%	0.4%	38.4%	0.0%
Rating class 2	6.4%	2.1%	0.1%	17.7%	0.0%
Rating class 3	13.3%	17.1%	28.2%	9.8%	7.2%
Rating class 4	40.5%	39.8%	37.3%	19.9%	80.7%
Rating class 5	20.2%	31.7%	28.0%	12.2%	12.1%
Rating class 6	2.9%	6.1%	3.8%	1.6%	0.0%
Rating class 7	1.4%	2.3%	2.2%	0.4%	0.0%

Internal rating classes correspond to Moody's rating in the following way: Rating class 1 corresponds to Moody's rating Aaa–Aa2, rating class 2 to Aa3–A1, rating class 3 to A2–A3, rating class 4 to Baa1–Baa3, rating class 5 to Ba1–B1, rating class 6 to B2–Caa2, rating class 7 to Caa3.

Collateral

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

in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business
					31.12.2016
Real estate	80.4%	97.1%	85.1%	25.4%	100.0%
thereof residential	81.5%	96.1%	99.8%	27.2%	0.0%
thereof commercial	18.5%	3.9%	0.2%	72.8%	100.0%
Guarantees	16.6%	0.7%	9.4%	73.0%	0.0%
Other collateral	2.2%	0.7%	5.5%	0.3%	0.0%
Financial collateral	0.8%	1.5%	0.1%	1.3%	0.0%

in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business
					31.12.2015
Real estate	78.4%	96.1%	88.3%	25.8%	97.8%
thereof residential	80.0%	94.2%	99.8%	29.5%	0.0%
thereof commercial	20.0%	5.8%	0.3%	70.5%	100.0%
Guarantees	16.8%	0.7%	0.0%	72.7%	0.0%
Other collateral	3.5%	1.1%	11.6%	0.3%	2.2%
Financial collateral	1.2%	2.1%	0.1%	1.2%	0.0%

Impaired loans

Provisions are booked on loans for which the probability of full recovery is not fulfilled. 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[1]. Loans are not included in NPLs if no economic loss is expected.

Manual impairment provision

In cases when exposures are restructured according to internal processes, which may include the extension of forbearance measures, an appropriate impairment test is performed. Derecognition is assessed after a detailed analysis on an individual basis and impairment provisions are formed manually.

Automatic impairment provision

Loan loss provisions are booked automatically in the core banking system for the standard bank products in the case of unpaid balances. This occurs when limits are continuously exceeded on current accounts, installments are continuously not paid on loans and/or when legal action is initiated.

General impairment provisions

A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on- and off-balance-sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 31 December 2016, the IBNR portfolio provision amounted to EUR 59 million (incl. EUR 15 million of provision for redemption carrier loans), thereof offbalance items amounted to EUR 5.5 million (31 December 2015: Total IBNR provision was EUR 50.7 million, thereof off-balance provision amounted to EUR 5.0 million).

Non-performing loans (NPLs)

Exposures relating to all customers in default risk class 8[2] are categorized as non-performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account. When a material exposure of a customer is greater than 90 days past due, a loan loss provision is allocated or a customer-specific default criterion applies. The customer is considered to be in default across all exposure-related products and is assigned to risk class 8.

Forborne loans and forbearance measures

Measures of forbearance or refinancing 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, or refinancing, may be granted. In this respect, strictly temporary measures – i.e. a reduction or postponement of as well as transfer to terms of interest only repayments – are in place. In exceptional cases, temporary or permanent reduction of interest rates may be granted. Depending on customer segments, a split of loan agreements or refinancing facilities may be accepted as viable measures.

Measures of forbearance or refinancing are instruments to ultimately reduce the existing risk with respect to debt claims. However, forbearance measures are by no means used to avoid or postpone the recognition of impairment or disguise the level of credit risk resulting from forborne assets.

By implementing forbearance measures, the Group supports clients in maintaining financial stability. One of the positive effects of forbearance is to assist clients on their way back to a sustainable financial situation. If the supporting measure is 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 loss was identified, a provision is booked following internal guidelines.

For reporting as well as internal risk management purposes, the Group implemented processes and methods according to regulatory standards[3] in order to identify exposures for which forbearance or refinancing measures have been extended.

Collateral and valuation of residential and commercial real estate

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

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, the two further impairment provision types described in the Impaired loans section lead to the immediate default of the customer. All exposure-bearing products of the customer who is defaulted are classified as non-performing loans.
2) Risk class 8 contains all customers that are classified as in default according to the CRR definition.
3) EBA/ITS/2013/03/rev1 issued on 24 July 2014.

The central group Residential Real Estate Appraisal determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich)* for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and on the INSEE statistics (L'Institut national de la statistique et des études économiques) for French residential properties.

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

Workout group

The workout group is responsible for the processing and administration of troubled and defaulted loan commitments. The primary objective is to minimize losses by providing restructuring expertise and maximizing repayments.

Early recognition of troubled assets

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

BAWAG P.S.K. Retail and easygroup

The BAWAG P.S.K. Retail portfolio is comprised of 58% mortgages (2015: 51%), 29% consumer loans (2015: 30%), 8% social housing (2015: 12%) and 5% small business loans (2015: 7%). The portfolio is characterized by strong collateral coverage in the secured products: 65% LTV across the mortgage portfolio (2015: 68%), 55% in private and small business loans (2015: 58%) and 47% (2015: 49%) across the social housing portfolio. New business volumes were originated primarily from consumer loans and mortgages.

The easygroup portfolio is comprised of 74% mortgages (2015: 67%), 29% consumer loans (2015: 30%) and 1% small business loans (2015: 1%). The portfolio is characterized by strong collateral coverage in the secured products (38% LTV across the mortgage portfolio; 2015: 56%), 63% in the small business loan portfolio; 2015: 70%). New business volumes were originated primarily from consumer loans and mortgages.

The core products have well-defined underwriting standards that focus on collateral coverage, overall customer indebtedness and assessing customers' ability to service the loan. In addition to that, special emphasis is placed on fraud detection via sophisticated techniques and sound processes to proactively prevent inflow of fraudulent new business.

The risk from new business is managed using clear and strict credit guidelines. Decisions at the point of sale are taken on the basis of automated scoring systems or, in certain cases, manual decisions by the Risk department. A key focus in this portfolio is placed on compliance with policies and ensuring high data quality already at the time of application.

For existing business, active portfolio management (i.e. delinquency reporting, trend analysis, regional concentration analysis, NPL remediation) is a key component to proactively manage the risk in this portfolio.

Having well-defined policies, procedures and analytical tools related to portfolio management is essential to managing risk in this flow-oriented business. The credit risk is measured continuously by the following methods:

– Portfolio trends in terms of risk class distribution

– Portfolio trends in terms of overdue/late payments

– Portfolio trends for defaulted loan facilities

– Portfolio trends in terms of losses

– Scorecard performance: Approval rate and manual decisions

– Performance monitoring of fraud detection

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

Furthermore, the risk from new business is managed using clear and strict credit guidelines. Decisions at the point of sale are taken on the basis of automated scoring systems or, in certain cases, manual decisions by the Risk department. A key focus in this portfolio is on compliance with policies and ensuring high data quality. A central monitoring process ensures ongoing quality assurance.

Credit portfolio and bonds by products

BAWAG P.S.K. Retail		**Book value**	**NPL ratio[1]**	**NPL coverage ratio**	**LTV[2]**
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2016**	**31.12.2016**
Mortgage loans	6,675	4,610	1.1%	94.5%	65.6%
Consumer loans	3,345	2,713	2.9%	88.1%	n/a
Social housing loans	985	1,079	–	–	47.2%
Small business loans	552	634	5.0%	91.4%	55.1%
Total	**11,558**	**9,036**	**1.8%**	**92.8%**	**58.9%**

easygroup		**Book value**	**NPL ratio[1]**	**NPL coverage ratio**	**LTV[2]**
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2016**	**31.12.2016**
Mortgage loans	3,267	2,503	2.9%	98.6%	38.1%
Consumer loans	1,137	1,099	1.6%	100.0%	n/a
Social housing loans	–	–	–	–	n/a
Small business loans	31	28	16.0%	86.4%	62.8%
Total	**4,436**	**3,630**	**2.1%**	**99.1%**	**38.3%**

1) The NPL ratio reflects a gross perspective.
2) The LTV for the total unprovisioned outstandings past due is close to the LTVs shown above.

The NPL ratio of the BAWAG P.S.K. Retail portfolio improved from 1.9% to 1.8% compared to the previous year. The NPL coverage ratio of 92.8% (2015: 88.9%) and the LTV of 58.9% (2015: 56.9%) convey the stable risk profile of this portfolio.

The mortgage portfolio of BAWAG P.S.K. Retail is characterized by normal LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average life of the mortgage portfolio is less than 17 years. Mortgages comprise both EUR- and CHF-denominated mortgages. The CHF-denominated mortgage portfolio stands at EUR 1.5 billion at year-end 2016 (2015: EUR 1.6 billion). This is a portfolio that is proactively being managed down and/or converted to EUR-denominated loans. The volume in CHF-denominated mortgages is down by over CHF 1 billion since the discontinuation of the product in 2008 (reduction of more than 40%). Specific programs have been in place for the past few years that were established between the Risk and Market organizations to convert customers to EUR-denominated loans. The LTV of the CHF portfolio was 77% as of year-end 2016 (31.12.2015: 79%).

The consumer loan portfolio is comprised of unsecured one-stop and online loans, overdrafts and a mix of leasing assets (consumer auto, real estate and equipment leasing). The focus has been on developing robust risk scorecards and processes to support the growth of this core segment. The risk profile of the portfolio is characterized by a weighted average life of slightly above six years. All the delinquency trends remained stable.

Small business loans are proactively monitored to ensure the potential identification of weakening credits and if required, countermeasures are initiated.

The NPL ratio of the easygroup portfolio amounts to 2.1% (2015: 1.1%). The NPL coverage ratio amounts to 100% and the LTV to 38.3% (2015: 56.0%).

The acquired UK mortgage portfolio has an exposure-weighted remaining term of 14.6 years with an LTV of 64% (2015: 57%). The French portfolio acquired in 2016 has an exposure-weighted remaining term of 11.3 years with an LTV of 62%.

For both segments, the overall NPL and coverage ratios reflect a stable and low-risk portfolio. Significant resources have been allocated and investments made over the past few years to address legacy NPL portfolios (primarily sold in the past few years), to enhance early and late stage collection processes/ capabilities and to develop a proactive approach of dealing with NPLs both from an Operations and Risk standpoint.

Forbearance by products

BAWAG P.S.K. Retail	Consumer loans		Mortgage loans		Small business loans		Total	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Forborne assets	**117**	**84**	**84**	**71**	**18**	**20**	**218**	**176**
thereof non-performing	15	12	16	19	4	6	34	38
Impairments	8	6	4	6	1	1	13	13
Collateral	7	6	69	57	12	14	88	78

easygroup	Consumer loans		Mortgage loans		Small business loans		Total	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Forborne assets	**6**	**4**	**143**	**13**	**1**	**1**	**149**	**17**
thereof non-performing	0	0	27	3	0	1	28	3
Impairments	1	0	0	–	0	0	2	0
Collateral	0	0	134	10	0	0	134	10

Days past due – credit quality

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure full repayment of loans.

The BAWAG P.S.K. Retail portfolio is 97.8% (2015: 97.3%) current (i.e. no days past due). The easygroup portfolio is 97.4% (2015: 97.7%) current. Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results reflect the strong credit quality of the portfolio.

BAWAG P.S.K. Retail	Consumer loans		Mortgage loans		Small business loans		Social housing loans	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total	**3,346**	**2,713**	**6,675**	**4,610**	**552**	**634**	**985**	**1,079**
1–30 days	0.7%	0.9%	0.1%	0.2%	0.9%	0.6%	–	–
31–60 days	0.3%	0.2%	0.0%	0.0%	0.2%	0.2%	–	–
61–90 days	0.2%	0.2%	0.0%	0.0%	–	0.1%	–	–
NPL ratio[1)]	**2.9%**	**3.6%**	**1.1%**	**1.4%**	**5.0%**	**5.4%**	**–**	**–**
NPL LLP coverage ratio	80.7%	86.3%	39.2%	37.6%	47.4%	48.3%	–	–
NPL coverage ratio (collateral + LLP)	88.1%	98.0%	94.5%	98.1%	91.4%	93.6%	–	–

easygroup	Consumer loans		Mortgage loans		Small business loans		Social housing loans	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total	**1,137**	**1,099**	**3,267**	**2,503**	**31**	**28**	**–**	**–**
1–30 days	0.4%	2.5%	0.1%	15.4%	–	–	–	–
31–60 days	0.4%	0.4%	0.1%	–	–	–	–	–
61–90 days	0.4%	0.3%	0.0%	–	–	–	–	–
NPL ratio[1)]	**1.6%**	**1.7%**	**2.9%**	**1.4%**	**16.0%**	**14.9%**	**–**	**–**
NPL LLP coverage ratio	100.0%	100.0%	11.7%	17.9%	71.2%	68.9%	–	–
NPL coverage ratio (collateral + LLP)	100.0%	100.0%	96.8%	100.0%	86.4%	85.0%	–	–

1) The NPL ratio reflects a gross perspective.

Retail assets – Regional distribution

BAWAG P.S.K. Retail	Book value		in %		NPL ratio[1)]	NPL coverage ratio
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2016
Vienna[2)]	4,911	2,477	42.5%	27.4%	2.3%	87.6%
Styria	1,821	1,822	15.8%	20.2%	1.5%	92.7%
Lower Austria	1,818	1,757	15.7%	19.4%	1.1%	93.7%
Upper Austria	784	730	6.8%	8.1%	2.5%	91.0%
Tyrol/Vorarlberg	706	732	6.1%	8.1%	1.6%	93.3%
Carinthia	659	658	5.7%	7.3%	1.9%	92.3%
Salzburg	452	448	3.9%	5.0%	1.5%	91.6%
Burgenland	407	412	3.5%	4.6%	1.3%	96.4%
Total portfolio	**11,558**	**9,036**	**100.0%**	**100.0%**	**1.8%**	**92.8%**

easygroup	Book value		in %		NPL ratio[1]	NPL coverage ratio
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2016
Vienna	317	306	7.1%	8.4%	1.9%	100.0%
Lower Austria	283	267	6.4%	7.4%	1.3%	100.0%
Tyrol/Vorarlberg	144	130	3.2%	3.6%	1.3%	100.0%
Styria	136	129	3.1%	3.6%	1.9%	100.0%
Upper Austria	127	117	2.9%	3.2%	2.1%	100.0%
Carinthia	118	107	2.7%	3.0%	0.9%	100.0%
Salzburg	68	65	1.5%	1.8%	1.9%	100.0%
Burgenland	29	27	0.7%	0.8%	1.0%	100.0%
Portfolio Austria	**1,222**	**1,148**	**27.6%**	**31.6%**	**1.5%**	**100.0%**
United Kingdom	1,777	2,481	40.1%	68.4%	3.0%	97.8%
France	1,435	–	32.4%	–	1.0%	100.0%
Total portfolio	**4,436**	**3,629**	**100.0%**	**100.0%**	**2.1%**	**99.1%**

1) The NPL ratio reflects a gross perspective.
2) Book values from IMMO-BANK and start:bausparkasse portfolios are grouped in BAWAG P.S.K. Retail – Vienna region.

The BAWAG P.S.K. Retail portfolio is regionally diverse across Austria, with two-thirds of the exposure distributed across the stronger economic regions of Vienna, Lower Austria and Styria similar to 2015. For the easygroup portfolio, the most significant regions in Austria are Vienna, Lower Austria and Tyrol/Vorarlberg, while the international mortgage portfolio comprises portfolios in UK and France (2015: UK).

DACH Corporates & Public Sector and International Business

	Book value		NPL ratio[1]	NPL coverage ratio	Investment grade
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2016	31.12.2016
DACH Corporates & Public Sector	7,790	7,492	0.7%	95.1%	88.2%
International Business	5,634	5,748	–	n/a	89.7%
IB Corporates	2,817	3,179	–	n/a	81.5%
IB Real Estate	2,817	2,569	–	n/a	97.9%
Total	**13,424**	**13,240**	**0.4%**	**95.1%**	**88.8%**

1) The NPL ratio reflects a gross perspective.

The segments DACH Corporates & Public Sector and International Business are split between domestic DACH Corporates & Public Sector assets and the International Business assets. The business was characterized by proactive risk management, disciplined growth in stable Western economies, continued exit of non-core CEE assets and maintaining a disciplined approach to risk-adjusted pricing. The overall portfolio is comprised of 88.8% investment grade between both DACH Corporates & Public Sector and International Business assets (2015: 86.3%). The total NPL ratio reflects the very high credit quality of the business and was further reduced by 0.3 percentage points from 0.7% to 0.4% due to active portfolio management. Among the NPL volume, 95.1% are covered (2015: 97.6%).

All material credit decisions are taken within a specific credit committee that meets weekly and is comprised of all Managing Board members. Individual credit applications are thoroughly reviewed, discussed and voted on. The Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international experience. For loan applications below a certain threshold, risk managers are granted authority to approve credits outside of the credit committee.

Corporate exposure in the international business is characterized predominantly by a moderate (net) debt/ EBITDA ratio of <4x and a very good risk/return profile. The international real estate finance portfolio has an average LTV of approximately 47% and is very well diversified in terms of regions and asset classes.

Currency distribution of the credit and bond portfolio

DACH Corporates & Public Sector	Book value		in %	
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
EUR	7,352	6,969	94.4%	93.0%
USD	111	100	1.4%	1.3%
GBP	43	22	0.6%	0.3%
CHF	250	361	3.2%	4.8%
Others	34	40	0.4%	0.5%
Total	**7,790**	**7,492**	**100.0%**	**100.0%**

International Business	Book value		in %	
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
EUR	1,965	2,313	34.9%	40.2%
USD	2,418	2,185	42.9%	38.0%
GBP	1,069	1,250	19.0%	21.7%
CHF			–	–
Others	182		3.2%	–
Total	**5,634**	**5,748**	**100.0%**	**100.0%**

Forbearance

	DACH Corporates & Public Sector		International Business		Total	
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Forborne	102	151	21	6	123	157
thereof non-performing	34	52	–	–	34	52
Impairments	12	20	–	–	12	20
Collateral	70	93	–	–	70	93

Particular risk concentrations in the credit portfolio

A major focus of risk management in the DACH Corporates & Public Sector and International Business segments is centered on managing concentration risk. Concentration risk arises from both large exposures in individual customer segments and large industry/country/foreign currency exposures.

The framework for the management of concentration risk is based on the requirements imposed by the senior management of the Bank in line with the rules and recommendations of national and international regulators. Concentration risks are managed, limited and reported to the Managing Board as part of the overall monthly risk management reporting.

The principles and methodological framework for the measurement and monitoring of these credit risk concentrations are outlined in risk manuals and guidelines.

Concentration risks at the level of individual transactions and products are managed in a sub-portfolio category. Country and sector limits are managed using a standard process in accordance with internal guidelines.

Concentration risk at the level of individual borrowers and groups of affiliated customers as well as for sectors, countries and currencies is quantified on the basis of allocated economic capital. Adapted risk-weighted assets form the methodological basis in accordance with IRB standards.

Corresponding limits and warning thresholds are specified for countries, sectors, currencies and groups of customers and form an integral part of the management of overall risk in the Group. All limits are monitored on an ongoing basis and in accordance with the estimated risk potential.

Risk concentrations by industry segmentation

DACH Corporates & Public Sector	**Book value**			**in%**
in EUR million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Government	2,839	2,342	36.4%	31.3%
Public Sector	1,876	1,733	24.1%	23.1%
Real Estate	691	766	8.9%	10.2%
Automotive	264	237	3.4%	3.2%
Retail – Food	253	142	3.3%	1.9%
B-2-C Products	224	372	2.9%	5.0%
Wood & Paper	196	224	2.5%	3.0%
Engineering and B-2-B	171	203	2.2%	2.7%
Gaming & Leisure	152	243	1.9%	3.2%
Social Housing	146	57	1.9%	0.8%
Banks	135	142	1.7%	1.9%
Commodity	115	157	1.5%	2.1%
Services	102	122	1.3%	1.6%
Pharmaceuticals & Health Care	100	126	1.3%	1.7%
Construction & Building Materials	82	95	1.1%	1.3%
Portfolio	76	22	1.0%	0.3%
Transport	63	107	0.8%	1.4%
Leasing	58	81	0.7%	1.1%
Media	57	29	0.7%	0.4%
NGO	49	48	0.6%	0.6%
Utilities	49	71	0.6%	0.9%
Beverages, Food & Tobacco	42	68	0.5%	0.9%
Hotels	32	0	0.4%	0.0%
Chemicals	9	14	0.1%	0.2%
Telecommunication	8	63	0.1%	0.8%
Mining & Metals	1	28	0.0%	0.4%
Total	**7,790**	**7,492**	**100.0%**	**100.0%**

International Business	Book value		in %	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Portfolio	1,367	1,747	24.3%	30.4%
Real Estate	1,278	770	22.7%	13.4%
Services	700	587	12.4%	10.2%
Pharmaceuticals & Health Care	386	517	6.8%	9.0%
B-2-C Products	353	241	6.3%	4.2%
Gaming & Leisure	234	267	4.2%	4.6%
Transport	215	211	3.8%	3.7%
Investment Funds	210	275	3.7%	4.8%
Hotels	188	0	3.3%	0.0%
Telecommunication	181	304	3.2%	5.3%
Commodity	108	176	1.9%	3.1%
Automotive	98	115	1.7%	2.0%
Chemicals	98	111	1.7%	1.9%
Engineering & B-2-B	97	106	1.7%	1.8%
Retail – Food	50	0	0.9%	0.0%
Beverages, Food & Tobacco	33	172	0.6%	3.0%
Wood & Paper	30	30	0.5%	0.5%
Construction & Building Materials	9	47	0.2%	0.8%
Insurance	0	5	0.0%	0.1%
Media	0	65	0.0%	1.1%
Total	**5,634**	**5,748**	**100.0%**	**100.0%**

Treasury Services & Markets

	Book value[1)]		Investment grade	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Banks	4,035	3,661	99.0%	99.3%
Sovereigns	1,112	980	100.0%	100.0%
Others	218	228	100.0%	100.0%
Total	**5,366**	**4,869**	**99.2%**	**99.5%**

1) Investment book only.

Treasury Services & Markets acts as a service center for the Bank's customers, subsidiaries and partners through market execution as well as selective investment activities.

The investment portfolio comprised 98% of investment grade rated securities (2015: 99%), of which 83% were rated in the single A category or higher (2015: 79%). Exposure to CEE represented less than 2% of the portfolio and was limited to selected bonds, with 100% rated in the single A equivalent category or better (2015: 84%). As of 31 December 2016, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers.

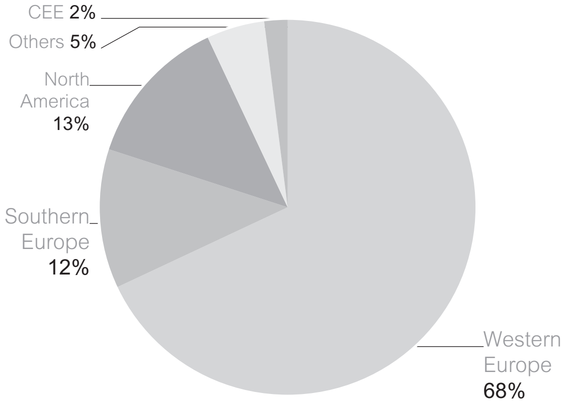
Currency distribution of the credit and securities portfolio

	Book value		in %	
in EUR million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
EUR	5,176	4,716	96.5%	96.9%
USD	162	153	3.0%	3.1%
Others	28	0	0.5%	–
Total	**5,366**	**4,869**	**100.0%**	**100.0%**

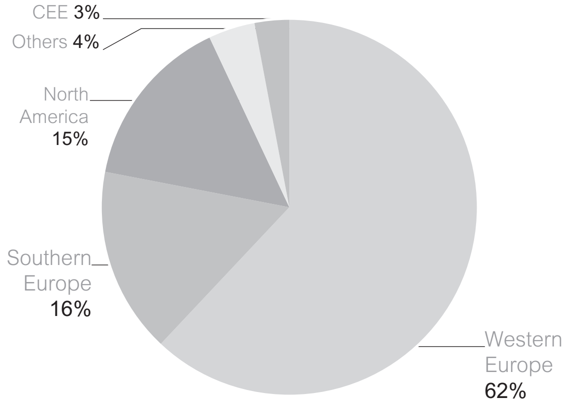
Geographical distribution of the securities portfolio[1)]

Geographical distribution of bonds

31.12.2016



31.12.2015



Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Bank, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center. The focus is set on non-business related positions.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential impairments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. In December 2016, the economic capital amounted to EUR 26 million (Dec. 2015: EUR 25 million).

Impairment tests are conducted every year to validate the values of the equity investments in the Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. cash flow, P&L and balance sheet) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the company based on the Group's shareholding is then compared with the carrying amount of the investment.

In contrast to the procedure described above, more simplified techniques are adopted for micro-participations and those amounts covered either by pro rata equity, by pro rata capitalized average earnings before taxes of the last three years or by other value indicators – e.g. net asset values for real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Participation Risk team.

54 | 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 P.S.K. are interest rate and credit spread risk. Both risk categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting concepts.

In the trading book, only risk mitigating measures are performed if necessary. The monitoring within the framework of ICAAP is carried out using a parametric VaR model. The regulatory capital requirement is calculated using the Standardized Approach. Regulatory capital requirements for specific risk in the trading book are still calculated using the regulatory standard method.

Market risk in the trading book

The Bank's strategy to discontinue proprietary trading activities resulted in a further reduction in derivative volume in the trading book in 2016. In 2016, the average value-at-risk of the trading book was measured at

1) These regions include the United States with 13% (2015: 15%), Great Britain with 15% (2015: 14%), France with 10% (2015: 7%) and Germany with 2% (2015: 3%).

minus EUR 0.60 million (2015 average: minus EUR 0.78 million) and the value-at-risk as of 31 December 2016 was measured at minus EUR 0.74 million (31 December 2015: minus EUR 0.64 million) based on a confidence interval of 99% and a one-day holding period. The Bank employs the value-at-risk (VaR) approach for internal risk monitoring and steering. The VaR limits are further supplemented by sensitivity and worst-case limits.

The following table depicts the total trading book VaR based on a confidence interval of 99% and a holding period of one day.

VaR trading book

in EUR thousand	31.12.2016	31.12.2015
Average VaR	(602)	(776)
Year-end VaR	(739)	(642)

Market risk in the banking book

The primary components of market risk for BAWAG P.S.K. Group are interest rate risk, credit spread risk and liquidity risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury Services & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the Group level as determined by the Controlling/ALM division. The Strategic Risk division reports to the SALCO on a daily basis for some areas as well as monthly at the Group level on limit utilization and the distribution of risk.

The target interest rate risk structure mandated by the SALCO is implemented by the Controlling/ALM and Treasury Services & Markets divisions. Interest rate derivatives are employed to this end in order to manage interest rate risk. BAWAG P.S.K. Group uses interest rate derivatives:

– to implement the interest risk strategy within the requirements and limits defined by the SALCO,

– to manage the sensitivity of the valuation result and the revaluation reserve,

– and to hedge the economic risk position, thereby taking the accounting treatment into consideration.

BAWAG P.S.K. Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to value interest rate risk hedges of the balance sheet:

– Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities

– Portfolio fair value hedge ("EU carve-out"): application to sub-portfolios of sight deposits that are available for the long term after derivation of a bottom layer

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point. The following table depicts the Group's interest rate risk sensitivities as of
31 December 2016 on the basis of the PVBP concept:

Interest rate sensitivity

	31.12.2016						
in EUR thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	(14)	(122)	(97)	(397)	(379)	(287)	(1,295)
USD	7	17	19	6	(8)	(1)	40
CHF	(12)	(13)	(10)	54	11	(38)	(7)
GBP	24	9	(1)	(7)	(5)	(9)	12
Other currencies	4	(21)	(3)	0	1	2	(17)
Total	**9**	**(129)**	**(91)**	**(344)**	**(380)**	**(332)**	**(1,267)**

in EUR thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
							31.12.2015
EUR	(198)	(50)	(322)	(172)	(52)	(36)	(830)
USD	(15)	(8)	29	(3)	(1)	0	3
CHF	(17)	(12)	(6)	3	(73)	4	(101)
GBP	5	10	(8)	(1)	(3)	(13)	(8)
Other currencies	2	(1)	1	1	1	3	6
Total	**(222)**	**(60)**	**(307)**	**(172)**	**(128)**	**(42)**	**(930)**

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to plus EUR 335 thousand on 31 December 2016 (average 2016: minus EUR 150 thousand, 31 December 2015: minus EUR 191 thousand). For the available-for-sale financial assets, the sensitivity amounted to minus EUR 631 thousand (31 December 2015: minus EUR 461 thousand).

Furthermore, a value-at-risk calculation for the Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by the Bank to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of the Bank along with the breakout by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income:

Credit spread sensitivity

in EUR thousand	31.12.2016	31.12.2015
Total portfolio	(2,304)	(1,965)
Financial assets designated at fair value through profit or loss	302	251
Available-for-sale financial assets	(1,251)	(815)
Held-to-maturity assets & Loans and receivables	(1,355)	(1,401)

The risk indicators "value-at-risk" and "expected shortfall" are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for the Bank as a whole in the ICAAP and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by backtesting.

FX risk in the banking book

The extent of open foreign exchange positions in the Group's banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis. FX risk from the future margins is mitigated by implementation of the Cash Flow Hedge. Currently, GBP and USD margin cash flows are hedged.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in EUR thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	(1,033)	1,033	(245)	245	708	(708)	284	(284)

Concentration risk

All essential risk factors are incorporated within VaR models/scenario analyses and stress test calculations which are applied to all trading and bank book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatility) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also divided, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

55 | 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 Manual for Liquidity Risks specifies how liquidity risks are to be controlled and includes a contingency liquidity plan. The risk measurement is performed by the market risk department, which is part of the Strategic Risk division.

Short-term operational liquidity management is performed by the Treasury Services & Markets division based on a 30-day rolling forecast that is updated daily, allowing for the close tracking and management of the short-term liquidity position. All measures are closely aligned with Controlling & Asset-Liability Management. Asset-Liability 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.

Asset-Liability 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 year 2016 was characterized by a solid liquidity position reflected by stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Additionally, the Bank once again underpinned its capital markets strength by successfully placing an international EUR 500 million mortgage covered bond as well as two publicly placed CHF-denominated senior unsecured bonds with partly negative yields. Furthermore, a GBP 500 million UK RMBS issue was used to directly get access to GBP funding.

Liquidity management

The liquidity management is performed under a Group perspective.

For managing the short-term liquidity, a 30-day liquidity forecast is prepared daily for ongoing liquidity position management by Treasury Services & Markets. This allows for close tracking and the management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared every month and reported in the SALCO (Strategic Asset Liability Committee). It also takes scenario calculations for planned measures and various assumptions about customer behavior into account. The regulatory and internal liquidity indicators are also projected. The FACE (Free Available Cash Equivalent), a benchmark for the short-term liquidity potential, represents the most important ratio for liquidity purposes.

Liquidity stress tests are used to determine the outflow of liquidity that may be incurred under different stress scenarios (systemic stress, idiosyncratic stress, combined stress) in order to calibrate the liquidity buffer.

Long-term liquidity management is conducted for the coming three years as part of the annual planning process. Strategic measures are also analyzed during the course of the year.

Major decisions regarding liquidity risk are made in the SALCO, in which all board members are represented. The limits applied for liquidity steering are supervised by the Strategic Risk division.

Liquidity buffer

Asset-Liability Management ensures that the Bank holds a well-diversified portfolio of high-quality, liquid assets and that the liquidity buffer, whose volume is derived from stress testing, fulfills all regulatory requirements and is sufficient for future refinancing purposes. Additionally, Asset-Liability Management centrally manages the liquidity buffer required for LCR purposes in designated portfolios. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the composition of the liquidity buffer on the basis of the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in EUR million	31.12.2016	31.12.2015
Money market	1,456	1,182
Bonds	4,548	3,739
ECB pledged credit claims	1,623	1,344
Short-term liquidity buffer	**7,627**	**6,265**
Bonds	915	689
Credit claims available for covered bonds	285	140
Medium-term liquidity buffer	**1,200**	**829**
Total	**8,827**	**7,094**

Maturity analysis of contractual undiscounted cash flows of financial assets and liabilities

						31.12.2016
in EUR million	**Gross nominal inflow/outflow**	**Less than 1 month**	**1–3 months**	**3 months to 1 year**	**1–5 years**	**More than 5 years**
Assets						
Loans to customers	34,920	2,454	943	2,452	12,835	16,235
Bonds	6,681	230	223	471	3,169	2,588
Money market assets	1,643	1,643	0	0	0	0
Subtotal	**43,244**	**4,327**	**1,166**	**2,923**	**16,004**	**18,823**
Liabilities						
Deposits from banks	(2,406)	(1,361)	(325)	(127)	(333)	(260)
Deposits from customers	(25,895)	(21,361)	(602)	(1,480)	(1,996)	(457)
Debt securities issued	(6,335)	(70)	(150)	(374)	(2,990)	(2,749)
Subtotal	**(34,636)**	**(22,792)**	**(1,078)**	**(1,981)**	**(5,319)**	**(3,466)**
Derivatives						
Inflow	6,868	1,238	1,177	2,258	898	1,297
Outflow	(7,139)	(1,258)	(1,190)	(2,427)	(907)	(1,356)
Other off-balance-sheet financial obligations	(1,586)	(1,586)	0	0	0	0
Total	**6,751**	**(20,072)**	**76**	**774**	**10,676**	**15,298**

in EUR million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	31.12.2015 More than 5 years
Assets						
Loans to customers	31,510	1,889	637	2,031	10,881	16,072
Bonds	6,314	108	243	744	3,244	1,975
Money market assets	1,063	1,035	10	18	0	0
Subtotal	**38,887**	**3,032**	**890**	**2,793**	**14,125**	**18,047**
Liabilities						
Deposits from banks	(4,490)	(1,118)	(1,685)	(69)	(1,340)	(278)
Deposits from customers	(21,519)	(18,799)	(289)	(964)	(1,352)	(116)
Debt securities issued	(5,019)	(17)	(32)	(329)	(2,364)	(2,277)
Subtotal	**(31,028)**	**(19,934)**	**(2,006)**	**(1,362)**	**(5,056)**	**(2,671)**
Derivatives						
Inflow	8,363	1,282	1,392	3,473	1,649	568
Outflow	(8,705)	(1,293)	(1,372)	(3,577)	(1,816)	(646)
Other off-balance-sheet financial obligations	(1,620)	(1,620)	0	0	0	0
Total	**5,897**	**(18,534)**	**(1,096)**	**1,326**	**8,902**	**15,298**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial assets and liabilities. They are assigned to time buckets on the basis of their contractual maturities. All daily callable loans and deposits were placed into the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

The liquidity management already takes the new regulatory liquidity ratios into account. Due to the robust liquidity position of the Bank, the liquidity coverage ratio of 138% significantly exceeds the regulatory requirements.

The year 2016 was characterized by a solid liquidity situation as well as stable core refinancing sources and a balanced liability structure. The funding strategy is still focused on retail deposits. This reduces the dependency on international capital markets and interbank funding, which is also reflected in a wholesale funding ratio[1] of less than 25% (2015: less than 30%). The strong liquidity situation of the Bank was used for strategic asset investments.

Nevertheless, an international covered bond of EUR 500 million were successfully placed as well as two CHF-denominated senior unsecured bonds with partly negative yields. Furthermore, a GBP 500 million UK RMBS issue was used to directly get access to GBP funding.

56 | Operational 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 on the basis of revenues.

For the purpose of internal economic capital steering (ICAAP), a statistical model is used to calculate the value-at-risk based on operational risk losses.

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

A new methodology – the Key Risk Indicators (KRI) – was implemented to identify or forecast negative trends or a changed risk profile in company workflows, divisions and subsidiaries in a timely manner. Each

1) Wholesale funding ratio = 1 – (customer liabilities/(financial liabilities – liabilities held for trading)).

KRI is monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate countermeasures is mandatorily required.

In addition to recipient-oriented reporting, the risk organization applies a risk control self-assessment (RCSA) concept in 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, 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.

A clear organizational structure and authorization levels form the basis of OpRisk governance. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are designed to allow the Group to manage OpRisk.

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

57 | Fiduciary assets

in EUR million	31.12.2016	31.12.2015
Fiduciary assets	**97**	**126**
Receivables from customers	97	126
Fiduciary liabilities	**97**	**126**
Deposits from banks	8	19
Deposits from customers	89	107

58 | Breakdown of securities pursuant to the Federal Banking Act (BWG)

The following table breaks securities down in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2016 (IFRS figures):

		Listed			
in EUR million	Not listed	Total	Loans and receivables	Other measurements	BAWAG P.S.K. Total 2016
Bonds and other fixed income securities	684	3,191	246	2,945	**3,875**
Shares and other variable income securities	2	2	–	2	**4**
Shares in associates and other shares	58	–	–	–	**58**
Shares in non-consolidated subsidiaries	22	–	–	–	**22**
Total securities	**766**	**3,193**	**246**	**2,947**	**3,959**

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG was EUR 65 million (2015: EUR 74 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG was EUR 9 million (2015: EUR 4 million).

Liabilities amounting to a repayment amount of EUR 345 million will come due under the corresponding contracts in 2017.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are all bullet bonds. Supplementary and subordinated capital bonds are subscribed by private Austrian investors and sold to major domestic and international investors.

As of 31 December 2016, the average weighted nominal interest rate on supplementary and subordinated capital bonds was 6.8% (2015: 6.57%), and the average remaining term to maturity was 6.6 years (2015: 7.1 years).

59 | Collateral received

Different types of collateral have been pledged to the Bank as part of its business transactions. To reduce credit risk for derivative instruments, the Bank received consideration (collateral deals) in the amount of EUR 470 million (2015: EUR 486 million) and paid consideration (collateral deals) in the amount of EUR 163 million (2015: EUR 314 million).

in EUR million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	Total
Financial collateral			
Stocks	16	–	16
Cash deposits	42	759	801
Bonds	11	1	12
Real estate			
Commercial properties	501	16	517
Private properties	8,084	64	8,148
Personal collateral			
Guarantees	2,116	17	2,133
Other forms of collateral	2	1	3
Assignation of claims	3	–	3
Life insurance policies	198	1	199
Collateral received	**10,973**	**859**	**11,832**

60 | Human resources

Headcount – salaried employees

	31.12.2016	31.12.2015
Number of employees on reporting date	3,528	3,611
Average number of employees	3,615	3,755

Full-time equivalents – salaried employees

	31.12.2016	31.12.2015
Number of employees on reporting date	2,951	3,072
Average number of employees	3,048	3,220
Active employees[1)]	2,496	2,625

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

61 | Branches

in EUR million	31.12.2016	31.12.2015
Name of branch	BAWAG P.S.K. International	BAWAG P.S.K. International
Business segment	International Business	International Business
Country of residence	Great Britain	Great Britain
Net interest income	0.0	0.0
Operating revenue[1)]	11.6	17.8
Number of full-time employees	14	12
Profit/loss before tax[1)]	(3.5)	8.8
Income tax accrued	2.9	1.8
Government aid received	0	0

1) BAWAG P.S.K. International: income is based on internal funds transfer pricing.

62 | Trading book

BAWAG P.S.K. maintains a securities trading book, which breaks down by volume as follows:

in EUR million	31.12.2016	31.12.2015
Derivative financial instruments in the trading book (nominal value)	7,359	11,548
Money market transactions (book values, recognized under receivables from credit institutions and payables to credit institutions)	31	84
Trading book by volume	**7,390**	**11,632**

63 | Geographical regions

Gross income of BAWAG P.S.K. relates to the following geographical regions, with the split being based on the domicile of the customer. Income from derivative and trading transactions is presented as domestic due to the fact that trading is centralized in Vienna and no material country risks arise as most transactions are collateralized.

in EUR million	Domestic	Western Europe	Central and Eastern Europe	North America	Rest of the world	Total
Interest and similar income	583.6	298.7	8.7	93.8	39.6	**1,024.4**
Income from securities and equity interests	3.3	0.0	0.0	0.0	0.0	**3.3**
Fee and commission income	272.3	2.3	0.6	0.6	0.5	**276.3**
Gains and losses on financial instruments	19.1	0.0	0.0	0.0	0.0	**19.1**
Other operating income	136.0	0.0	0.0	0.0	0.0	**136.0**

64 | Other disclosures required by BWG and Austrian GAAP (UGB) including remuneration policy

The Statement of Financial Position entry for Land and buildings shows property with a carrying amount of EUR 2 million (2015: EUR 3 million).

Obligations arising from the use of tangible non-current assets not recognized on the Statement of Financial Position were expected to come to EUR 25 million for the period subsequent to 2016 (2015: EUR 23 million); the expected amount in the five years following the year under review was EUR 93 million (2015: EUR 88 million).

The Statement of Financial Position as of 31 December 2016 contains accrued interest on supplementary capital bonds in the amount of EUR 0 million (2015: EUR 1 million).

Expenses for subordinated liabilities amounted to EUR 33 million (2015: EUR 48 million).

Expenses for BAWAG P.S.K.'s group auditor in the current financial year amount to EUR 1.7 million and comprise audit fees in the amount of EUR 1.6 million, tax advisory fees of EUR 0.0 million as well as other advisory fees in the amount of EUR 0.1 million.

As of 31 December 2016, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 1.22% (2015: 1.10%).

The Company is a member of the consolidated group headed by Promontoria Sacher Holding N.V., which is situated in Baarn, The Netherlands. Pursuant to section 30 paragraph 1 and 2 BWG, Promontoria Sacher Holding N.V. is the superordinate financial holding company of the group of credit institutions. In accordance with section 30 paragraph 5 and 6 BWG, BAWAG P.S.K. AG as the superordinate credit institution is responsible for the compliance with the provisions of the Austrian Banking Act which are applicable to the group of credit institutions and prepares the consolidated financial statements of Promontoria Sacher Holding N.V. The consolidated financial statements of Promontoria Sacher Holding N.V. are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG and are available at BAWAG P.S.K. AG's headquarters in Vienna.

BAWAG P.S.K. uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG P.S.K. at: www.bawagpsk.com/Financial-Results.

Remuneration policy

BAWAG P.S.K. AG has a Remuneration Committee, which is a Supervisory Board committee. The Remuneration Committee specifies the remuneration policy, monitors its implementation and submits regular reports on its activities to the full Supervisory Board. The committee consists of the chairman of the Supervisory Board, who heads it, and five further Supervisory Board members, including two members of the Works Council.

BAWAG P.S.K. AG's Remuneration Committee has adopted a remuneration guideline that applies to the members of the Managing Board and the employees of the Group and that takes into account the principles of the EU's CRD IV Directive, the EBA guideline on sound remuneration policies and the associated provision of the Austrian Banking Act.

For employees whose activities have a material influence on the Bank's risk profile, this guideline stipulates a remuneration policy that does not impede effective risk management. It is designed to align the objectives of the employees with the long-term interests of the Bank and to ensure an appropriate balance between fixed and variable remuneration components. It also takes into account the legal regulations stipulating that the policy must be applied to the management and to risk purchasers, to employees with controlling duties as well as to employees who are in the same wage group as the management and the risk purchasers and whose activities have a material influence on the risk profile of the Bank.

The annual budget for variable remuneration components is based on the degree to which the Bank achieves its earnings targets.

Approval for the awarding of bonuses to Managing Board members and employees is proposed by the Managing Board and granted by the Committee for Management Board Matters, taking into account the market conditions and development, the appropriateness of bonus payments, the development of risk and the strengthening of the Bank's equity base.

The rules were implemented in the remuneration guideline as follows:

- To ensure risk adequacy, the variable remuneration must not provide an incentive to enter into inappropriate risks.
- To ensure sustainability, success is determined based on a longer-term observation period. For this reason, parts of the bonus are distributed over a period of up to five years. The payment of the retained portions is subject to strict Bank success criteria.
- The appropriateness and market adequacy of remuneration is ensured, applying a balanced relationship between fixed and variable components.

The variable remuneration is determined on the basis of the individual's success (in quantitative and qualitative terms) as well as on the success of the respective organizational unit and the Bank.

For individual matters concerning the remuneration of Managing Board members, a Committee for Management Board Matters has been set up taking into account the framework of the Austrian Labor Constitution Act.

65 | Own funds of BAWAG P.S.K. AG (individual financial institution)

The following table depicts the composition of BAWAG P.S.K. AG's own funds applying transitional rules as of 31 December 2016 and 2015 according to CRR:

in EUR million	**31.12.2016**	**31.12.2015**
Share capital and reserves (including funds for general banking risk)	250	250
Reserves including profit for the fiscal year 2016	2,220	1,905
Deduction of intangible assets	(97)	(88)
IRB risk provision shortfalls	(22)	(49)
Common Equity Tier I	**2,351**	**2,018**
Supplementary and subordinated debt capital	460	476
Deduction participations	(20)	(15)
Excess IRB risk provisions	25	16
IRB risk provision shortfalls	(6)	(21)
Tier II	**459**	**456**
Own funds	**2,810**	**2,474**

66 | Date of release for publication

The Group financial statements were approved by the Board of Managing Directors for submission to the Supervisory Board on 1 March 2017. The Supervisory Board is responsible for reviewing and acknowledges the Group financial statements.

67 | Events after the reporting date

easybank AG

easybank AG has concluded a demerger and transfer agreement for succession with SIX Payment Services (Austria) GmbH regarding the part business issuing / credit cards / pre-paid cards.

Vienna, 1 March 2017

Byron Haynes
CEO and Chairman of the Managing Board

Corey Pinkston
Member of the Managing Board

Sat Shah
Member of the Managing Board

Anas Abuzaakouk
Member of the Managing Board

Stefan Barth
Member of the Managing Board

STATEMENT OF ALL LEGAL REPRESENTATIVES

"We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces."

Vienna, 1 March 2017

Byron Haynes
CEO and Chairman of the Managing Board

Corey Pinkston
Member of the Managing Board

Sat Shah
Member of the Managing Board

Anas Abuzaakouk
Member of the Managing Board

Stefan Barth
Member of the Managing Board

BOARDS AND OFFICERS OF BAWAG HOLDING GMBH

MANAGING DIRECTORS OF BAWAG HOLDING GMBH AS OF 31 DECEMBER 2016

Anas ABUZAAKOUK
(from 31 July 2014)

Byron HAYNES
(from 9 November 2009)

Jeffrey L. LOMASKY
(from 1 August 2012)

Corey PINKSTON
(from 1 August 2012)

SUPERVISORY BOARD OF BAWAG HOLDING GMBH AS OF 31 DECEMBER 2016

Chairman

Franklin W. HOBBS
(from 1 August 2013, Member of the Supervisory Board from 4 April 2013 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Deputy Chairmen

Cees MAAS
(from 1 August 2013, previously Chairman from 15 October 2009 until 1 August 2013, Member of the Supervisory Board from 15 October 2009 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Pieter KORTEWEG
(from 25 March 2010, Member of the Supervisory Board from 14 September 2007 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Keith TIETJEN
(from 31 March 2015, Member of the Supervisory Board from 31 July 2014 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Members

Walter OBLIN
(from 18 April 2012 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Frederick HADDAD
(from 4 April 2013 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

André WEISS
(from 4 April 2013 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Anthony J. GUIDO
(from 9 April 2013 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

BOARDS AND OFFICERS OF BAWAG P.S.K. AG

MANAGING BOARD OF BAWAG P.S.K. AG AS OF 31 DECEMBER 2016

Byron HAYNES
Member of the Managing Board (from 1 August 2008),
Chairman of the Managing Board and CEO (from 16 September 2009)

Anas ABUZAAKOUK
(from 1 January 2014)

Stefan BARTH
(from 1 February 2015)

Corey PINKSTON
(from 1 January 2013)

Sat SHAH
(from 4 March 2015)

SUPERVISORY BOARD OF BAWAG P.S.K. AG AS OF 31 DECEMBER 2016

Chairman

Franklin W. HOBBS
(from 12 March 2013 until revoked)

Deputy Chairmen

Cees MAAS
(from 12 March 2013, previously Chairman from 15 October 2009 until 12 March 2013, Member of the Supervisory Board from 27 July 2009 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Pieter KORTEWEG
(from 15 December 2009, Member of the Supervisory Board from 27 August 2007 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Keith TIETJEN
(from 4 March 2015, Member of the Supervisory Board from 5 October 2010 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Members

Walter OBLIN
(from 15 March 2012 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Frederick HADDAD
(from 12 March 2013 until revoked)

André WEISS
(from 12 March 2013 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Chad A. LEAT
(from 5 December 2013 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2016)

Works Council Delegates

Ingrid STREIBEL-ZARFL
(from 1 October 2005)

Beatrix PRÖLL
(from 1 October 2005)

Konstantin LATSUNAS
(from 12 March 2013)

Verena SPITZ
(from 3 March 2016)

State Commissioner

Beate SCHAFFER
(from 1 August 2009, previously Deputy State Commissioner from 1 March 2007 to 31 July 2009)

Deputy State Commissioner

Markus CHMELIK
(from 1 March 2010)

COMMITTEES OF BAWAG P.S.K. AG AS OF 31 DECEMBER 2016

Risk and Credit Committee

Chad A. LEAT
Chairman

Cees MAAS

Keith TIETJEN

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Nomination Committee

Franklin W. HOBBS
Chairman

Cees MAAS

Pieter KORTEWEG

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Remuneration Committee

Franklin W. HOBBS
Chairman

Cees MAAS

Keith TIETJEN

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Audit and Compliance Committee

Keith TIETJEN
Chairman

Cees MAAS

Walter OBLIN

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Konstantin LATSUNAS
Works Council Delegate

Committee for Management Board Matters

Franklin W. HOBBS
Chairman

Cees MAAS

Pieter KORTEWEG

Keith TIETJEN

Frederick HADDAD

Related Parties Special Audit Committee

Franklin W. HOBBS
Chairman

Chad A. LEAT

Keith TIETJEN

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

AUDITOR'S OPINION

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of **BAWAG Holding GmbH, Vienna, Austria**, which comprise the consolidated balance sheet as of 31 December 2016, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) and the additional requirements in accordance with Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the audited entity within the meaning of Austrian commercial and banking law as well as professional regulations, and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

ISA 701 (Communicating key audit matters in the independent auditor's report) is applied voluntarily. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

During the course of the audit, the following key audit matters were identified:

– Valuation of loans and advances to customers

– Valuation of claims and provisions from litigation with City of Linz

– Initial recognition of assets and liabilities from a business combination

– Recognition of deferred tax assets on tax losses carried forward

– Initial recognition of a loan portfolio acquisition

Valuation of loans and advances to customers

Risk to the Consolidated Financial Statements
The receivables from customers amount to EUR 28.5 billion and are mainly comprised of the segments "BAWAG P.S.K. Retail", "easygroup", "DACH Corporates & Public Sector" and "International Business".

Management describes the approach to determine the risk provisions in Note 1 "Accounting policies" section "Loan Loss Provisions" as well as the section "Latitude of Judgment and Uncertainty of Estimates". A breakdown of loans and receivables as well as loan loss provisions is provided in Note 16 "Loans and receivables".

The bank evaluates in the context of credit risk management whether identifiable risks exist and specific loan loss provisions need to be recognized. This includes an assessment whether customers are able to meet their contractual liabilities in full.

The calculation of the risk provision for defaulted individually significant customers is based on an analysis of the estimated future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer, the valuation of collateral and the estimation of the amount and timing of future cash flows derived thereof.

The bank calculates the loan loss provision for defaulted individually not significant customers automatically on the basis of unpaid instalments and continuous overdraft of current accounts. This automated general loan loss provision is determined either by days past due or a legal case as well as corresponding general provisioning levels. The parameters used in the valuation model are based on statistical assumptions.

For all non-defaulted loans and off-balance exposures a rating based portfolio loan loss provision is implemented. The portfolio provision is based on the regulatory Expected Loss Model. The incurred loss is derived by application of the average time until detection of the credit event. Individual, customer-specific parameters as well as statistical assumptions and empirical values are used to determine the amount of the provision.

The risk to the consolidated financial statements results from the fact that the identification of impending loan defaults as well as the calculation of the provisioning amounts significantly depend on the assumptions and estimates stated above, leading to margins of discretions and estimate uncertainty with regard to the amount of the provision.

Our Audit Approach
We have analyzed the existing documentation regarding the processes of underwriting, monitoring and the risk provisioning for customer loans and critically assessed whether these processes are suitable to identify impairment triggers and to adequately reflect the valuation of loans and advances to customers. Moreover, we have evaluated the process workflows as well as significant controls by inspecting the IT-Systems and testing the design and implementation of key controls. Furthermore, we have evaluated the effectiveness of key controls through sample testing.

We have examined individual specific loan loss provision on the basis of a sample of loans and assessed whether indications of credit defaults exist and whether loan loss provisions have been recognized in an adequate amount. The selection of the sample was performed risk-oriented and with special regard to ratings and industries with higher probability of default risk. In the case of identified impairment triggers we assessed the bank's assumptions with respect to conclusiveness, consistency and freedom from contradictions. In order to determine the amount and timing of repayments from liquidation of real estate collateral, we have consulted our real estate experts to analyze appraisal reports or valuation calculations obtained from the bank by applying benchmark tests, market comparisons and external data.

With regard to automated specific loan loss provisions and the portfolio provision we have analyzed the models used as well as the parameters used. Based on the bank's backtesting of provisions and validations of actual parameters, we have evaluated the adequacy of the assumptions regarding the customers or the customer portfolio. We have consulted our valuation experts when analyzing the models and backtesting reports. Our IT experts have analyzed the system's automated processes in calculating automatic provisions, the programmed calculation process flow as well as the application of the correct reference fields from the systems of the bank. We have tested the calculation of the provision amount through re-calculations.

Furthermore, we have evaluated the adequacy of the disclosures on the valuation of loans and advances to customers in the notes.

Valuation of claims and provisions from litigation with City of Linz

Risk to the Consolidated Financial Statements
Management describes the uncertainty of estimates and the course of the litigation with regard to a Swiss Franc swap with the City of Linz in the Note 1 "Accounting principles" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz". Since the lawsuit is ongoing, no amounts are being disclosed in the notes.

Since November 2011, BAWAG P.S.K. is engaged in a lawsuit with the City of Linz in connection with this Swiss Franc swap. City of Linz has filed a lawsuit at the Commercial Court of Vienna (Handelsgericht Wien) against BAWAG P.S.K. claiming a payment of CHF 30.6 million. BAWAG P.S.K. filed a (counter)suit against the City of Linz to enforce its contractual entitlements in the amount of EUR 417.7 million.

The claim against the City of Linz is presented under the receivables from customers and amounts to the market value of the swap on the date of early termination. The assessment of the carrying amount of the receivables was based on management estimate taking into consideration the risks related to this assessment. These estimates comprise the duration and costs of the lawsuit as well as its outcome, especially from negligent actions from one of the parties as well as assumptions regarding claims resulting thereof. Management based its assessment for the valuation and the related uncertainties on legal opinions from external legal counsels, who represent the bank legally, as well as opinions of the internal legal department and the analysis of the professional opinions of the appointed court experts.

The risk to the consolidated financial statements results from the assessment of the above-mentioned factors, especially the probability of success of the ongoing litigation and the amount and timing of cash flows arising from the outcome of the litigation. Moreover, the lawsuit has gained increased public and political interest. The proceeding, which is already ongoing for several years, has not been decided by the court of first instance. Thus the valuation of the claims and provisions from the lawsuit against the City of Linz are affected by estimate uncertainties.

Our Audit approach
We have evaluated whether the valuation of the claims against the City of Linz as well as provisions connected to the lawsuit have been determined adequately and whether the estimates with regard to this litigation are appropriate.

We have critically assessed the estimations of the board and of the bank's internal and external legal experts. We have obtained and analyzed statements of the involved law firms addressing the state of the lawsuit as of 31 December 2016. We have analyzed whether the amount of the claim is consistent with the contractual terms and the market parameters on the closure date as well as whether the assumptions for the valuation of the claim on the reporting date are consistent with the current assessment of the progress of the litigation and current market parameters.

We have consulted our internal legal experts to analyze the experts' statements provided.

Moreover, we have assessed the assumptions and calculation for provisions connected to the lawsuit as well as the assumptions used for determining an adequate discount rate by analyzing the market and industry specific benchmarks.

Finally, we have evaluated whether the disclosures in Note 1 "Accounting principles" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz" are adequate. Since the litigation is ongoing, the bank makes use of IAS 37.92 (protective clause) and does not disclose any amounts or information with regard to the valuations.

Initial recognition of assets and liabilities from a business combination

Risk to the Consolidated Financial Statements
On 1 December 2016 (date of acquisition) the bank acquired 100% of the shares of start:bausparkasse AG, Vienna and of IMMO-BANK Aktiengesellschaft, Vienna, for a preliminary purchase price of EUR 124 million. The bank describes this transaction in Note 37 "Major changes in the Group's holdings". Further disclosures on the determination of fair values is given in Note 1 "Accounting policies" section "Latitude of Judgment and Uncertainty of Estimates".

The identification and determination of fair values of assets and liabilities on the acquisition date depend on management's estimates, assumptions and valuation models. Such estimates and assumptions in particular include the valuation of receivables from and payables to customers and credit institutions, the valuation of issued securities as well as intangible assets identified in the course of the purchase price allocation. For the determination of the fair values of intangible assets management's assessment is based on calculations from external experts.

The risk to the consolidated financial statements results from the recognition and the valuation of the identified assets and liabilities acquired in connection with the purchase price allocation, which are significantly influenced by management's estimate and margins of discretions.

Our Audit approach
We have analyzed the purchase agreements and assessed whether the criteria of power over the acquired companies start:bausparkasse AG, Vienna and IMMO-BANK Aktiengesellschaft, Vienna and the definition as a business combination is fulfilled on the acquisition date.

We have consulted with our valuation experts for the analysis of the assumptions and estimates as well as the valuation models applied for determining the fair values of the acquired positions. In this course we also assessed whether the budgeted figures and the underlying planning assumptions were conclusive and consistent, the cash flows calculations reflect the respective payment schedules and the discount rates applied can be derived from publicly available information and market data within a reasonable range. Moreover, we have verified on a sample basis the mathematical accuracy of the valuation models used to determine the fair values.

Finally, we have analyzed the adequacy of the disclosure in connection with the business combination provided in the notes to the consolidated financial statements.

Recognition of deferred tax assets on tax losses carried forward

Risk to the Consolidated Financial Statements

The consolidated financial statements include deferred tax assets in the amount of EUR 203 million that mainly result from unused tax losses carried forward. Management provides disclosures on these deferred tax assets in Note 1 "Accounting policies" section "Income taxes and deferred taxes" as well as in Note 21 "Net deferred tax assets and liabilities on Statement of Financial Position".

Deferred tax asset based on unused tax losses have to be recognized in the amount that is probable to be offset against future taxable income. The amount of tax losses carried forward that can be used to offset future taxable income has to be grounded on the business forecast and tax planning. The recognition of the deferred tax assets on tax losses carried forward therefore highly depends on management's assumptions in respect to business forecast and the realization of sufficient taxable income.

The risk to the consolidated financial statements results from the uncertainty connected to estimates and discretionary judgements for determining the future taxable income that forms the basis of the recognition of a respective deferred tax asset from tax losses carried forward.

Our Audit approach

We have evaluated the assumptions and significant parameters for forecasting the future taxable income with regard to derivability from externally available data, such as macroeconomic forecasts and the banks own historical data and operating results. Moreover, we have analyzed whether corporate planning is consistent with the Bank's corporate and risk strategy. We have tested the consistency of management's assumptions used for corporate planning with the assumptions used for tax planning calculation and have evaluated the planning quality by determining whether the tax planning calculation is reliable. We have tested this by comparing the observable ranges of deviations of actual versus budgeted figures and planned inverse effects from deferred tax assets. We have analyzed the tax planning calculation, which leads to the realization of deferred tax assets based on unused tax losses, and have verified the mathematical accuracy of the calculation. We have analyzed the tax planning strategies, which lead to the realization of deferred tax assets based on unused tax losses. We have acknowledged the tax collection agreement and have verified the mathematics of the tax allocation calculations based on the contractually determined guidelines.

Furthermore, we have evaluated the adequacy of the disclosures in the notes regarding the recognition of deferred tax assets based on unused tax losses.

Initial recognition of a loan portfolio acquisition

Risk to the Consolidated Financial Statements

Management describes the acquisition of a portfolio of French retail residential mortgages loans in section "Business segment development in 2016" of the Risk Report. Accounting of the day 1 gain from this transaction is disclosed in Note 34 "Treatment of day one gain". Methods for determining fair values are presented in Note 1 "Accounting policies" section "Latitude of Judgment and Uncertainty of Estimates". This acquired loan portfolio is presented in the reporting segment "easygroup".

The initial recognition of the acquired loans and receivables is based on the fair value determined through a DCF method considering market conditions on the purchase date. The fair value of the portfolio determined by the bank exceeds the transaction price. The difference results from changes in market condition as well as in timing between the contractually defined purchase price and the value of the credit portfolio on the purchase date. The bank evaluated whether the day 1 gain on the purchase date resulted from change of factors that market participants would consider in determining the price of the obtained asset. The bank has accrued the determined day 1 gain.

In the context of the initial valuation of the portfolio, management performed a detailed analysis and calculation of the initial recognition of individual loans via a DCF method, in order to assess the fair value of each loan for the initial recognition. For this purpose the bank analyzed the following parameters and employed assumptions: probability of default, remaining maturity, discount rate including credit spread, product specification and current interest curves.

The risk to the consolidated financial statements from the initial recognition of the acquired loan portfolio results from the determination of the fair value of the loans on an individual level using non-observable market parameters as well as the identification of a day 1 gain on the purchase date and the related uncertainty of estimates and discretionary judgements.

Our Audit approach

We have accessed the contracts and internal documentation of the purchase transaction to verify the purchase price, the notional of the portfolio and the total balance as of the acquisition date and to analyze whether the risks have been transferred to the acquirer.

We have included our valuation experts in the assessment of the adequacy of the valuation models applied by the bank to determine the fair value of the acquired loans on the acquisition date.

In this course we have evaluated management's assessment of the amount and timing of future cash flows by analyzing a sample of individual loans. We further evaluated the assumptions on interest curves, credit spread and discount rates and model parameters through reconciliation with market data and publicly available information and assessed whether the values applied and the underlying assumptions are within a reasonable range.

Moreover, we have assessed the internal procedures and key controls to ensure the complete integration of the loan portfolio in the systems of the bank. Key controls were tested for design, implementation and effectiveness.

We have assessed the methodology of determining premiums and discounts for individual loans on the acquisition date. Finally, we have assessed the management's decision on the accounting treatment of the day 1 gain and evaluated the adequacy of the disclosures provided.

Management's Responsibility and Responsibility of the Audit Committee for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements in Section 245a UGB. Further, management is responsible for internal controls as determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Group's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Group or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

– We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.

– We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

– We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.

– We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, among other matters, the planned scope and timing of our audit as well as significant findings including any significant deficiencies in internal control that we identify in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with Austrian Generally Accepted Accounting Principles the group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the group management report in accordance with Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report has been prepared in accordance with legal requirements and is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and the understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

The legal representatives of the Company are responsible for other information. Other information comprises all information provided in the annual report, with the exception of the consolidated financial statements, the group management report, and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover other information, and we will not provide any kind of assurance on it.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, and to assess whether it contains any material inconsistencies with the consolidated financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact. Should we, based on the preformed audit, come to the conclusion that the other information is materially misstated, we would have to report this fact. In this regard, we have nothing to report.

Auditor in Charge

The auditor in charge is Mr. Bernhard Mechtler.

Vienna, 1 March 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Holding Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. Before any business opportunities are entered into, they are thoroughly assessed with regard to their impact on the CET1 ratio.
Core revenues	The total of net interest income and net fee and commission income	Core revenues total the line items net interest income and net fee and commission income and demonstrate the success of the bank in its core activities.
Cost-income ratio	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 P.S.K. uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
FACE	Free Available Cash Equivalent (liquidity buffer)	Internally defined liquidity buffer which is divided into short- and mid-term
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).
Investment grade	Rating that indicates that a corporate or municipality has a relatively low risk of default	BAWAG P.S.K. refers to the rating of Moody's, with a minimum rating of Baa.
Leverage ratio	Common Equity Tier 1 (CET1) capital / total exposure (calculation according to CRR, based on BAWAG Holding Group) – as of September 2016, the total exposure calculation was adapted from three-month averages to an end-of-period figure in line with changed regulatory requirements	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.

Key performance indicator	Definition / Calculation	Explanation
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR, based on Promontoria Sacher Holding N.V. Group)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-Value (LTV)	Mortgage loans / appraised value (market value) of the property	The Loan-to-Value ratio is a financial term to express the ratio of a mortgage loan in relation to the value of the property.
Net interest margin	Net interest income / average interest-bearing assets – as of year-end 2016, the ratio's denominator was changed from average total assets to average interest-bearing assets and applied retroactively	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	Non-performing loans; loans are not included in NPLs if no economic loss is expected	All customer exposures in default risk class 8, regardless of whether a limit has been breached or the customer is in arrears on an individual account or not.
NPL ratio	Non-performing loans (NPLs) / loans and receivables (including provisions)	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
NPL LLP coverage ratio	Loan loss provision / NPL	Impairment write-downs 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

Key performance indicator	Definition / Calculation	Explanation
Return on equity	Net profit / average IFRS equity	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related). Return on equity and return on tangible equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. Return on total assets or return on risk-weighted assets is a business indicator and a measure for economic success of the management's business activities. The "Return on " measures are useful for easily comparing the profitability of the bank with other financial institutions.
Return on risk-weighted assets	Net profit / average risk-weighted assets	
Return on tangible equity	Net profit / average IFRS tangible equity	
Return on total assets	Net profit / average total assets	
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Holding 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 / loans and receivables	Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (including provisions)	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 balance of the loan portfolio 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.
Sensitivity (BPV)	Sensitivity (Basis Point Value) denotes the change in the price if the risk factor changes one basis point value (0.01 %)	

Key performance indicator	Definition / Calculation	Explanation
Total capital	Based on IFRS CRR regulatory figures (BAWAG Holding Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other instruments (e.g. Additional Tier 1 and Tier 2 instruments) not falling within the strict Common Equity Tier 1 definition. The total capital ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. However, CET1 capital is of higher significance as it is also the base for prudential thresholds such as the SREP requirement. Therefore, BAWAG P.S.K. focuses more on CET1 capital and the CET1 ratio.
Total capital ratio	Total capital / risk-weighted assets	
Value-at-risk (VaR)	Measure of risk of investments	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes
HICP	Harmonized Index of Consumer Prices; basis for a comparative measurement of inflation in Europe and for evaluating the stability of monetary values within the Eurozone
IBNR	Allowance for incurred but not reported losses.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.
Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.

Audited Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU as of and for the financial year ended December 31, 2015

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

CONTENTS

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	2015	2014
Interest income		1,051.3	1,089.9
Interest expense*)		(339.2)	(424.3)
Dividend income		10.2	9.8
Net interest income	**[2]**	**722.3**	**675.4**
Fee and commission income		292.3	302.0
Fee and commission expense		(106.4)	(104.2)
Net fee and commission income	**[3]**	**185.9**	**197.8**
Gains and losses on financial assets and liabilities	[4]	64.8	38.7
Other operating income and expenses	[5]	(36.4)	(10.3)
Administrative expenses*)	[6]	(432.9)	(451.7)
Depreciation and amortization on tangible and intangible non-current assets	[7]	(38.9)	(47.6)
Risk costs*)	[8]	(45.8)	(84.3)
Share of the profit or loss of associates accounted for using the equity method	[9]	(0.5)	0.9
Profit before tax		**418.5**	**318.9**
Income taxes	[10]	(24.1)	(0.5)
Profit after tax		**394.4**	**318.4**
Thereof attributable to non-controlling interests		0.0	10.2
Thereof attributable to owners of the parent		**394.4**	**308.2**

*) Adjusted for 2014.

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 Austrian bank resolution fund) in the amount of EUR 35.2 million. However, the Group's management sees regulatory charges as non-operating expenses. Accordingly, they are shown in a separate expense line in the Group Management Report.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	2015	2014
Profit after tax	**394.4**	**318.4**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plans	16.8	(66.8)
Income tax on items that will not be reclassified	(4.2)	16.7
Total items that will not be reclassified to profit or loss	**12.6**	**(50.1)**
Items that may be reclassified subsequently to profit or loss		
Available-for-sale reserve	(92.5)	9.3
Share of other comprehensive income of associates accounted for using the equity method	2.2	1.5
Income tax relating to items that may be reclassified	24.4	(2.7)
Total items that may be reclassified subsequently to profit or loss	**(65.9)**	**8.1**
Total comprehensive income, net of tax	**341.1**	**276.4**
Thereof attributable to non-controlling interests	0.0	10.2
Thereof attributable to owners of the parent	**341.1**	**266.2**

The decrease of the Available-for-sale-reserve is mainly due to the sale of securities. The actuarial gains in 2015 in the amount of EUR 16.8 million were mainly due changing actuarial assumptions.

For further details, please refer to Note 34 Equity.

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	31.12.2015	31.12.2014
Cash reserves	[11]	809	684
Financial assets designated at fair value through profit or loss	[12]	303	450
Available-for-sale financial assets	[13]	2,745	3,859
Held-to-maturity investments	[14]	2,290	2,042
Financial assets held for trading	[15]	950	1,163
Loans and receivables	[16]	27,396	25,280
Customers		24,713	21,779
Securities		973	1,983
Credit institutions		1,710	1,518
Hedging derivatives	[33]	469	546
Property, plant and equipment	[19]	59	81
Investment properties	[19]	4	3
Goodwill	[20]	58	58
Brand name and customer relationships	[20]	168	174
Software and other intangible assets	[20]	103	102
Tax assets for current taxes		20	7
Tax assets for deferred taxes	[21]	190	193
Associates recognized at equity	[52]	43	44
Other assets	[22]	92	100
Assets in disposal groups	[32]	9	68
Total assets		**35,708**	**34,854**

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 35.

Total liabilities and equity

in EUR million	[Notes]	31.12.2015	31.12.2014
Total liabilities			
Financial liabilities designated at fair value through profit or loss	[23]	1,269	1,675
Financial liabilities held for trading	[24]	1,071	1,174
Financial liabilities at amortized cost	[25]	28,514	27,985
Customers		21,692	21,127
Issued bonds, subordinated and supplementary capital		3,236	4,438
Credit institutions		3,586	2,420
Financial liabilities associated with transferred assets	[41]	621	–
Valuation adjustment on interest rate risk hedged portfolios		169	196
Hedging derivatives	[33]	106	160
Provisions	[29]	419	522
Tax liabilities for current taxes		6	1
Tax liabilities for deferred taxes	[30]	–	4
Other obligations	[31]	576	512
Obligations in disposal groups	[32]	0	6
Total equity	**[34]**	**2,957**	**2,619**
Equity attributable to the owners of the parent		2,956	2,619
Non-controlling interests		1	–
Total liabilities and equity		**35,708**	**34,854**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2014	**100.0**	**1,162.4**	**903.3**	**98.9**	**(34.3)**	**2,230.3**	**793.0**	**3,023.3**
Transactions with owners	–	125.6	–	–	–	125.6	(398.6)	(273.0)
Owner's contribution	–	125.6	–	–	–	125.6	–	125.6
Redemption of participation capital	–	–	–	–	–	–	(350.0)	(350.0)
Dividends	–	–	(3.0)	–	–	(3.0)	(54.6)	(57.6)
Total comprehensive income	–	(201.6)	509.8	8.1	(50.1)	266.2	10.2	276.4
Balance as of 31.12.2014 = 01.01.2015	**100.0**	**1,086.4**	**1,410.1**	**107.0**	**(84.4)**	**2,619.1**	**–**	**2,619.1**
Transactions with owners	–	8.0	–	–	–	8.0	–	8.0
Owner's contribution	–	8.0	–	–	–	8.0	–	8.0
Dividends	–	–	(12.0)	–	–	(12.0)	–	(12.0)
Change in scope of consolidation	–	–	–	–	–	–	1.4	1.4
Total comprehensive income	–	–	394.4	(65.9)	12.6	341.1	–	341.1
Balance as of 31.12.2015	**100.0**	**1,094.4**	**1,792.5**	**41.1**	**(71.8)**	**2,956.2**	**1.4**	**2,957.6**

For further details, please refer to Note 34 Equity.

CASH FLOW STATEMENT

in EUR million	2015	2014
I. Profit (after tax, before non-controlling interests)	**394**	**318**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities		
Depreciation, amortization, impairment losses, write-ups	74	86
Changes in provisions	(89)	(39)
Changes in other non-cash items	40	(127)
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	(123)	(11)
Share of profit of equity-accounted investees, net of tax	1	(1)
Other adjustments (mainly received interest less paid interest)	(661)	(582)
Subtotal	**(365)**	**(357)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items		
Loans and advances to customers and credit institutions	(1,413)	1,861
Other financial assets (not including investing activities)	403	(291)
Other assets	80	7
Deposits from customers and banks	1,747	(29)
Other financial liabilities (not including financing activities)	(1,349)	(1,119)
Other obligations	(60)	38
Interest receipts	1,065	1,196
Dividend receipts	10	10
Dividends from equity-accounted investees	3	–
Interest paid	(404)	(590)
II. Net cash from operating activities	**(283)**	**726**
Cash receipts from sales of		
Financial investments	1,918	2,260
Tangible and intangible non-current assets	24	154
Cash paid for		
Financial investments	(1,129)	(2,556)
Tangible and intangible non-current assets	(35)	(47)
Cash receipts from sales of subsidiaries	105	–
Acquisition of subsidiaries, net of cash acquired	(30)	–
Other changes	–	18
III.Net cash used in investing activities	**853**	**(171)**
Capital contributions	–	125
Redemption of participation capital	–	(350)
Dividends paid	(12)	(58)
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)	2	4
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)	(435)	(73)
IV. Net cash from financing activities	**(445)**	**(352)**
Cash and cash equivalents at end of previous period	**684**	**481**
Net cash from operating activities	**(283)**	**726**
Net cash used in investing activities	**853**	**(171)**
Net cash from financing activities	**(445)**	**(352)**
Cash and cash equivalents at end of period	**809**	**684**

The Cash Flow Statement provides information about the current state and development of the Group's cash and cash equivalents as of the reporting date. It shows inflows and outflows of cash broken down by operational activities, investing activities and financing activities. The amount of cash and cash equivalents reported comprises cash on hand and balances at central banks. The Cash Flow Statement is of low significance for BAWAG Holding Group. It is not a substitute for liquidity or financial planning and is not used as a management tool.

Cash flow from the sale of subsidiaries

In 2015, BAWAG Holding Group sold its shares in BAWAG P.S.K. INVEST GmbH after having received all regulatory approvals.

in EUR million	**2015**
Sales proceeds	**105**
Assets sold	**23**
Financial assets	20
Other assets	3
Debts sold	**15**
Provisions	2
Other obligations	13
Net assets sold	**8**
Goodwill	58
Profit from the sale	**39**
Sales proceeds	105
Cash and cash equivalents contained in the assets sold	–
Proceeds from the sale	**105**

The profit from the sale is shown in the line item Gains and losses on financial assets and liabilities.

NOTES

CHANGES IN ACCOUNTING PRESENTATION

Details on changes in accounting presentation can be found in Notes 6 and 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K. AG), a subsidiary of BAWAG Holding GmbH, is an Austrian bank, operating predominantly in Austria with additional activities in selected international markets. The registered office of BAWAG Holding GmbH is located at Wiesingerstraße 4, 1010 Vienna.

The consolidated financial statements were prepared applying section 59a BWG, according to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and in accordance with the provisions of the standards (IFRS/IAS) published by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC/SIC) as applicable on the reporting date as adopted by the EU and therefore mandatory with respect to the consolidated financial statements as of 31 December 2015.

These consolidated financial statements for BAWAG Holding according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2015. All material associates are accounted for using the equity method.

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

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

For details on changes in accounting presentation, see Notes 6 and 8.

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

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

Scope of Consolidation and Consolidation Principles

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

As of 31 December 2015, the consolidated financial statements included 33 (2014: 32) fully consolidated companies and 2 (2014: 2) companies that are accounted for using the equity method. In the interest of materiality, the criteria for inclusion are both the amount of an entity's assets and its relative contribution to the Group's consolidated profit. All non-consolidated subsidiaries had only a minor influence on the Group's assets, financial position and the results of its operations. Note 50 List of consolidated subsidiaries contains a list of all fully consolidated subsidiaries and associates accounted for using the equity method.

The carrying amount of the associates that are not accounted for using the equity method totaled EUR 19 million (2014: EUR 44 million) on 31 December 2015. Controlled companies with a carrying amount of EUR 22 million (2014: EUR 18 million) were not consolidated because they did not have a material effect on the Group's assets, financial position or the results of its operations.

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

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

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

Capitalized goodwill in the amount of EUR 58 million (2014: EUR 58 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

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

All non-consolidated equity instruments are measured according to IAS 39 and categorized as available-for-sale financial assets.

Financial Instruments

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

a) Held-to-Maturity Investments
This category includes all financial instruments with fixed or determinable payments and fixed maturity that are intended to be held to maturity. If securities are assigned to this category, BAWAG Holding has the positive intention and the ability to hold the instruments to maturity.

Held-to-maturity investments are carried at amortized cost. If at the end of a reporting period there is an objective evidence for impairment, the recoverable amount is calculated and an impairment is recognized if this amount is lower than the carrying amount. The recoverable amount is calculated by discounting the expected future cash flows with the original effective interest rate of the financial instrument. If this impairment decreases in subsequent periods, a write-up is recognized up to the amortized cost valid at that time.

Premiums and discounts on securities classified as held-to-maturity investments are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against interest income from the same securities.

b) Financial Assets and Liabilities Recognized at Fair Value through Profit or Loss

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

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

- To avoid an accounting mismatch
  - For fixed-income own issues, securities and loans whose fair value on the date of acquisition has been hedged with interest rate derivatives;
  - Investment products whose fair value changes have been hedged with derivatives
- Management on a fair value basis
  - Certain securities and loans are managed on a fair value basis by the Strategic Asset Liability Committee, which also decides on the extent of the open interest rate risk exposures. The Managing Board is informed about these positions regularly.
- Presence of embedded derivatives
  - Structured financial instruments with embedded derivatives

c) Loans and Receivables
Loans and Receivables are measured on the Statement of Financial Position at amortized cost inclusive of deferred interest following deduction of impairment allowances.

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

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

Please see the Loan Loss Provisions section for information about the formation of provisions.

d) Available-for-Sale Financial Assets
This category covers financial assets which are not classified as

– Loans and receivables;

– Held-to-maturity investments; or

– Financial assets recognized at fair value through profit or loss.

In addition to the securities that BAWAG Holding has assigned to the category Available-for-sale financial assets, this item also includes shares in non-consolidated subsidiaries.

The Available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in other comprehensive income (AFS reserve) until the asset is sold, repaid or impaired. Impairments are recognized in the Profit or Loss Statement under Risk costs – Impairment provisions for financial assets. BAWAG Holding continuously compares the redemption amount with the carrying amount of the available for sale financial assets to detect any possible impairments. Potential impairments are reviewed and – in case of materiality – approved by the responsible Risk Division. When the reasons for the impairment of a debt instrument no longer apply, these impairments are reversed through profit or loss up to the amount of amortized cost. Any reversal of impairment for equity instruments recognized at fair value is recognized directly in other comprehensive income.

If a fair value for unlisted equity instruments cannot be measured reliably, it is measured at cost less necessary impairments. Impairments are not reversed.

Debt instruments are reviewed individually for impairment if objective indications of a loss (such as delayed payment) are incurred after the date of initial recognition that would lead to a reduction in the cash flow arising from them. An impairment exists when the net present value of the expected cash flows is lower than the carrying value of the financial instrument concerned.

Equity instruments are written down if their fair value is either significantly lower (more than 20%) than their historic cost or has been below historic cost for a considerable period (at least nine months). All not publicly traded equity investments are tested for impairment according to IAS 39.66, provided that a preliminary examination has not ruled out impairment indicators.

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

e) Financial Liabilities
In accordance with IAS 39, financial liabilities

– not held for trading or

– designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

Reclassifications

Reclassification of Financial Assets into the Category Loans and Receivables
Financial assets can be reclassified from the category available-for-sale to the category of loans and receivables when

– the financial asset meets the requirements for inclusion in the category loans and receivables according to IAS 39 on the date of reclassification; and

– the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets for the foreseeable future.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category loans and receivables.

When available-for-sale assets are reclassified into loans and receivables, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Risk costs – Impairment provisions for financial assets.

Details are presented in Note 16.

Reclassification of Financial Assets into the Category Held-to-Maturity Investments
Financial assets can be reclassified from the category available-for-sale to the category of held-to-maturity investments when the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets until maturity.

In addition, available-for-sale financial assets may be reclassified to held-to-maturity investments after the expiration of the two-year retention period that is required if more than an insignificant portion of the held-to-maturity investments is sold or reclassified.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category held-to-maturity investments.

When available-for-sale assets are reclassified into held-to-maturity investments, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Risk costs – Impairment provisions for financial assets.

Reclassification of Financial Assets into the Category Available-for-Sale
IAS 39 and its interpretations state that financial instruments that are classified as loans and receivables can be reclassified as available-for-sale assets when the financial instrument subsequent to its initial classification becomes traded in an active market and therefore the definition of loans and receivables is no longer met.

When an asset is reclassified as available-for-sale, it must be remeasured at its fair value, and any difference between its carrying amount and its fair value must be recognized in Other comprehensive income (AFS reserve).

Hedge Accounting

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

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

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

Micro Fair Value Hedge
In a micro fair value hedge, a financial asset or financial liability or a group of similar financial assets or financial liabilities is hedged against changes in its fair value. Changes in the value of the hedged item and

the hedging instrument are recognized in the Profit or Loss Statement in the line item Gains and losses on financial assets and liabilities in the same period.

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

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

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

Portfolio Fair Value Hedge
BAWAG Holding applies fair value hedge accounting for a portfolio hedge of interest rate risk. In its accounts, the Group has identified sight deposits in Euros as a portfolio that is to be protected against interest rate risks. These are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Holding determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge. Additions and withdrawals are initially allocated to the non-designated portion of the identified portfolio using the bottom layer approach. For this, BAWAG Holding applies the EU carve-out for IAS 39, which allows sight deposits and similar instruments to be designated as part of a hedging relationship on the basis of the expected withdrawal and due dates. The EU carve-out for IAS 39 also allows the application of the bottom layer approach.

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

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

– there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");

– the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets and

– a reliable estimate of the loss amount can be made.

The loan loss provisions cover provisions for loan defaults or counterparty risks and are formed as individual and general provisions on the basis of past experience. The loan loss provisions from lending are netted off against the corresponding receivables on the Statement of Financial Position. Provisions for off-balance-sheet loans are reported as provisions.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counter-party relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counter-party risks is based on expected future recoveries in accordance with the risk analysts' estimates. Provisions for counterparty risks that were not individually significant were accounted for generally, on a percentage basis, with regard to the amounts overdue and based on our historical loss experience.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

A loan loss provision is accounted for on a portfolio basis in accordance with IAS 39.AG89 for losses incurred but not reported as of the reporting date. The portfolio loan loss provision is recognized for on- and off-balance-sheet receivables of the Group's loan portfolio including securities but excluding items recognized at fair value. For loans backed by a repayment vehicle, which mainly include loans in foreign currencies, a provision based on funding gaps is considered as well. The amount of the IBNR is calculated on the basis of the regulatory Expected Loss Model. The actual loss that has been incurred is extrapolated from the expected loss, taking into account the duration from occurrence to detection of the loss (the loss identification period – LIP). For this reason, financial assets are grouped on the basis of similar credit risk characteristics (IAS 39.AG87). The classification is based on the categories of claims against Banks, Corporates, Sovereigns and Retail. LIP is calculated for each segment and is based on the average time until identification of the 90 days overdue status based on expected cash inflows according to the repayment plans. LIP is calculated as the exposure-weighted average in months. Depending on the risk monitoring process, a shorter LIP than calculated based on expected cash flows is anticipated.

Financial Guarantees

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

In the ordinary course of business, subsidiaries of BAWAG Holding provide financial guarantees, consisting of various types of letters of credit and guarantees. Financial guarantees are initially measured at fair value. Subsequent to initial recognition, the financial guarantee contract is reviewed in order to determine whether a provision according to IAS 37 is required.

If subsidiaries of BAWAG Holding are a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Methods for Determining the Fair Value of Financial Instruments

Derivatives

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in Note 35. Some basic information is presented here:

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

For positions in the trading book, the closing costs of the positions (bid/ask spreads) on a net basis are calculated and booked on a regular basis.

The total value of an interest rate swap is derived from the present values of its fixed and variable rate legs. Similarly, the total value of a cross currency swap is derived from the present values of the two cash flows expressed in terms of the functional currency of the Group entity.

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

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

BAWAG Holding determines a credit (CVA) or debt value adjustment (DVA) for the credit risk of OTC derivatives. If available, liquid credit default swap (CDS) spreads are generally used to determine the probability of default (PD) and the recovery rate (REC). If this is not possible, equivalent segments of the CDS market are used.

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

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

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

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

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

In the case of the close-out of a derivative transaction with a customer, the type of claim changes for BAWAG Holding Before the contract is terminated, the asset is a derivative, while after the contract is closed out, the asset is a contractual claim whose value no longer changes depending on market parameters. For this reason, the claim no longer satisfies the definition of a derivative according to IAS 39.9.

In the event of the early termination of a derivative transaction, the variability of the payment flows in terms of amount and time of occurrence are materially changed by the close-out, and the original derivative is replaced with a new asset. This new asset is recognized at its fair value according to IAS 39.43. The fair value corresponds to the carrying amount of the derivative at the time that the agreement is terminated, including any valuation adjustments applied up to the time of termination. A claim arising from the termination of the agreement meets the criteria in IAS 39.9 for categorization under loans and receivables.

This approach was chosen following IAS 39.40 and IAS 39.21, since IAS 39 contains no explicit rules for when a financial instrument first fulfills the characteristics of a derivative and then no longer exhibits these characteristics at a later time. According to IAS 8.10 to 8.12, such gaps in the standards must be closed by applying a similar provision in the IFRS and taking the framework into account.

The method described above was especially important in the transaction with the City of Linz in 2011.

Credit-Linked Notes

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

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

Measurement for Asset-Based Investments

Furthermore, in the prior year BAWAG Holding used internal valuation models to determine the fair values of CLOs for which there was no active market. BAWAG Holding's CLO model was calibrated to actively traded loans and used available market data (such as yield curves, CDS spreads, loan prices, etc.) as inputs. The implied probabilities of default (default intensities) and loss rates (severities, LGD) were determined on the basis of the fair values of the loans taking a discount margin (liquidity costs) into account. Working from this, default scenarios that were consistent with the market were generated (Monte Carlo simulation) for each CLO transaction and used to project the expected CLO cash flows. The fair value of the CLO transactions was derived by discounting the expected cash flows with the corresponding reference interest rate plus the discount margin, which was determined by calibrating the prices of currently traded CLOs. As of 31 December 2015 there is no CLO portfolio.

Transfers of Financial Instruments

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

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

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

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

Conversely, under agreements to resell, known as "reverse repos," financial assets are acquired for a consideration while at the same time committing to their future resale. Cash outflows under reverse repos are recorded within trading assets.

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the loan. Securities lent to counterparties are accounted for in the same way as repos: They are retained in the Group's financial statements and are measured in accordance with IAS 39. Securities lending and borrowing transactions are generally collateralized. Collateral furnished by the securities borrower continues to be recorded in the borrower's financial statements.

Intangible Non-Current Assets, Property, Plant and Equipment

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

Intangible non-current assets with an infinite useful life are recognized at cost less impairments. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 2.5% and 4%, while other furniture and equipment are depreciated at annual rates between 5% and 33.3%. Purchased and self-produced software, and other intangible assets and rights (other than goodwill and brand name) are amortized at annual rates between 10% and 33.3%. Customer relationships are amortized over approximately 33 years (2014: 20 years) using an arithmetic declining amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details please refer to Note 20.

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

Investment Properties

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

Land and buildings held for investment purposes (investment property) are measured at cost less straight-line depreciation for buildings and less impairments (IAS 40). Depreciation ranges between 2.5% and 4% per year. In addition to reviewing the method of depreciation and useful lives, impairment tests are also performed as of each reporting date.

Impairment Testing

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

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (1.0%) thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. The discount rate was estimated based on average equity returns in the sector and amounts to 7.93%.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36. All not publicly traded equity investments were tested for impairment according to IAS 39.66, provided that a preliminary examination has not ruled out impairment indicators. To determine the value in use of the CGU, the present value of the projected pre-tax profits reduced by the nominal tax rate was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the CGU in question. The pre-tax discount rate was derived from the planned pre-tax profits and the above-mentioned valuation result, and served as a target value.

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

As a rule, the planning horizon used for valuation purposes is five years. The long-term growth rates used in the calculation are 1.0%, applying the going concern principle.

The pre-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. As of 31 December 2015, the following parameters are used:

– The risk-free rate (1.58%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.

– The source for the country-specific market risk premium (6.00% for Austria) is the website Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose working group "Business Valuation" sets a range from 5.5% to 7%. A market risk premium of 6.75% was chosen for Austria.

– The applied beta factor for banks and financial service companies (0.94) is the two-year weekly average beta of ten banks listed on European stock exchanges with retail as their core business. Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 qualify for the peer group. The applied beta factor for non-banks is 1.0, which represents a specific parameter and no general market risk.

Based on the aforementioned assumptions, the value in use of the CGU or equity investment was calculated for the year under review in accordance with IAS 36. Value in use represents the present value of the estimated future cash flows expected from a cash generating unit or a single entity.

The Group's interest in BAWAG P.S.K. Versicherung Aktiengesellschaft is assessed using the embedded value and an estimation of the future value.

In addition, intangible and tangible assets are tested at the reporting date to determine whether or not there is evidence that they are impaired. If there is evidence for impairment, the recoverable amount is calculated for the asset. This is the higher of the value in use or the net selling price. If the recoverable amount is lower than the carrying amount, an impairment loss in the amount of the difference is recognized according to IAS 36. As of 31 December 2015, no impairments of intangible and tangible assets were accounted for.

In the case of real estate companies and own real estate, current estimated market values of the properties are taken into account. External appraisals are renewed every three years at the latest.

Leasing

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

BAWAG Holding Group as Lessor

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

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

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

BAWAG Holding Group as Lessee

Expenditure on operating leases is recorded on a straight-line basis over the life of the lease agreement and reported under operating expenses.

Finance leases where BAWAG Holding Group is a lessee are of minor significance.

Income Taxes and Deferred Taxes

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

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

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

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2015, unused tax losses amounted to EUR 361 million (2014: EUR 1,485 million) at the level of BAWAG Holding, EUR 868 million (2014: EUR 1,205 million) at the level of BAWAG P.S.K., EUR 0 million (2014: EUR 91 million) at the level of members of the tax group included in the consolidated financial statements and EUR 66 million (2014: EUR 67 million) at the level of other companies included in the consolidated financial statements (BAWAG Malta Bank, which was sold in January 2016; therefore, this unused tax loss cannot be utilized in the future), hence a total of EUR 1,295 million (2014: EUR 2,848 million). The difference compared to 2014 is primarily the result of the exclusion of impairment losses from the tax base. Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

The utilizability of unused tax losses and deferred tax assets by BAWAG Holding was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to EUR 868 million (2014: EUR 1,013 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately EUR 217 million (2014: EUR 253 million) are recognized within BAWAG Holding Group. If the fore-casted taxable results varied by 10% compared to management estimations, deferred tax assets would remain unchanged (2014: increase by EUR 24 million) if results improve and would remain unchanged (2014: decrease by EUR 24 million) if forecasted results turn out to be lower than expected.

A tax group pursuant to section 9 KStG was parented by BAWAG Holding GmbH in the financial year. On 31 December 2015, the tax group consisted of the group parent and 19 domestic members, both consolidated and non-consolidated in these financial statements (previous year: 19 members). A tax collection agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole. The payable tax is allocated to each group member with a positive tax result on the basis of its proportionate share of the group's tax result. An internal tax loss carryforward is taken into account for tax losses allocated to the group parent. If the head of the tax group has to pay a minimum corporate tax, the head of the tax group is able to burden the members of the tax group with a proportion of the minimum corporate tax following the principle of tax causation.

In the financial year 2014, a settlement agreement to the group and tax compensation agreement was concluded between the group parent and each tax group member. This agreement stipulated that an interim settlement of the tax equalization is to be made for the financial years 2010 to 2014, with all tax contributions of these financial years being regarded as offset.

In the financial year 2015, tax allocations in the amount of EUR 3 million were allocated to members of the tax group included in the consolidated financial statements.

A final settlement for uncredited tax losses must be effected upon dissolution of the tax group or when a member entity leaves the group. As of 31 December 2015, the exit of BAWAG Holding from the tax group and the exit of all other group members, with the exception of the new members in 2014 and 2015, would not result in a corporate income tax back payment as of 31 December 2015 because the minimum period of three years as required by section 9 paragraph 10 KStG was already fulfilled. The new group members who entered the tax group in 2014 and 2015 would incur a marginal corporate income tax back payment.

Provisions for employee benefits

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

The present values of obligations outstanding as of the measurement date are calculated on the basis of actuarial assumptions applying an appropriate discount rate and taking into account the expected rates of increase in salaries and post-employment benefits. They are recognized as a provision in the Consolidated

Statement of Financial Position. Actuarial gains and losses relating to provisions for post-employment and termination benefits are recognized in full in the year in which they are incurred in other comprehensive income.

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2015	2014
Interest rate	2.05% p.a.	2.05% p.a.
Wage growth	1.75% p.a.	1.90% p.a.
Fluctuation discount	0%-3.22% p.a.	0%-3.22% p.a.

Parameters for severance payments and anniversary bonuses

	2015	2014
Interest rate	2.05% p.a.	2.05% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	2.80% p.a.	2.80% p.a.
Fluctuation discount severance payments	0%–1.75% p.a.	0%–1.75% p.a.
Fluctuation discount anniversary bonuses	0%–5.07% p.a.	0%–5.07% p.a.
Retirement age	57–65 years[1)]	57–65 years[1)]

1) The earliest possible individual retirement age as per ASVG was assumed.

The interest rate used in 2015 has not been changed compared to the previous year, remaining at 2.05%.

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

The existing post-employment benefit plans in BAWAG Holding Group that are financed entirely through provisions because they are defined benefit obligations pertain primarily to post-employment benefit rights and future rights of employees BAWAG P.S.K. AG. The allocated assets disclosed by the pension fund set up for certain beneficiaries are set off against the determined amounts of provisions for post-employment benefits.

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

The post-employment benefit rights of the majority of employees are covered by BONUS Pensionskassen AG and Bundespensionskasse AG (defined contribution plans). The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations.

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation.

Contingent Liabilities and Unused Lines of Credit

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

Assets and Obligations in Disposal Groups

Non-current assets (or disposal groups consisting of assets and liabilities) must be classified as held for sale when the corresponding carrying amount is primarily the result of a sale transaction and not of continued use.

Immediately before the first-time classification as held for sale, the assets (or disposal groups) are measured according to the Group's accounting policies. Then, the non-current assets (or disposal groups) are recognized at the lower of their carrying amount or fair value less selling costs.

Impairments of assets (or disposal groups) are first offset against goodwill and then against the remaining assets on a proportionate basis if the impairment does not pertain to inventories, financial assets, deferred tax assets or staff benefits. These must still be recognized in accordance with the Group's accounting policies. First-time and subsequent impairment losses and reversals are recognized directly in income. Reversals of impairments may only be completed up to the amount of the cumulative recognized impairment losses. The reversal of the impairment of a goodwill is not permitted. No impairments were recognized in 2015.

Equity

Equity is the capital provided by the Group's owners (issued capital and capital reserves) and the capital generated by the Group (retained earnings, reserves from currency translation, AFS reserve, actuarial gains and losses, profit brought forward and the profit for the period).

Revenue Recognition

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

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

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Interest income and interest expense are recognized on an accrual basis.

Fee and Commission Income and Expense
This item consists mainly of income from and expenses for payment transfers, the securities and custody business, lending and payments to Österreichische Post AG for the use of its distribution network. Income and expenses are recognized on an accrual basis.

Gains and Losses on Financial Assets and Liabilities
This item consists mainly of the valuations and sales gains or losses of our investments and issued securities and the result from trading in securities and derivatives. Moreover, hedging inefficiencies and foreign exchange differences are shown within this position.

Other Operating Income and Expenses
The other operating result reflects all other income and expenses not directly attributable to ordinary activities, such as results on the sale of property. In addition, the other operating result encompasses expenses for other taxes and regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the Austrian bank resolution fund), income from the release of other provisions and the reimbursement of expenses to customers.

Administrative Expenses
General administrative expenses represent personnel and other administrative expenses accrued in the reporting period.

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

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill and non-consolidated equity investments.

Net Gains or Losses on Financial Instruments

Net gains or losses on financial instruments include fair value measurements recognized in the income statement, impairments, impairment reversals, gains realized on disposal and subsequent recoveries on written-down financial instruments classified in the respective IAS 39 categories. The components are detailed for each IAS 39 category in the notes on net interest income, gains and losses on financial assets and liabilities, and risk costs.

Latitude of Judgment and Uncertainty of Estimates

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

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

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 1 Accounting policies and in Note 35 Fair value.

Assessments as to whether or not cash generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. Details on the impairment test and the analysis of uncertainties surrounding the estimation of goodwill are set out in Note 1 Accounting policies and Note 20 Goodwill, Brand name and customer relationships and Software and other intangible assets.

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax-loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. The Group regularly reevaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 1 Accounting policies as well as in Note 21 Tax assets and Note 30 Tax liabilities.

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

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

– assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business

– recognition of provisions for uncertain liabilities

– assessments of legal risks and outcome of legal proceedings

Latitude of Judgment and Uncertainty of Estimates – City of Linz

Uncertainties in estimations also apply to the claim of BAWAG P.S.K. against the City of Linz. On 12 February 2007, the City of Linz and BAWAG P.S.K. concluded a forward financial transaction. This transaction was intended by the City of Linz to optimize a CHF loan it had taken out with another bank.

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

The City of Linz filed a lawsuit against BAWAG P.S.K. at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling EUR 24.2 million at the exchange rate at that time). BAWAG P.S.K. filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The court combined the two suits. The first verbal hearings were held in the spring of 2013. BAWAG P.S.K.'s strong legal position remains unchanged and the Group is well prepared for the ongoing court hearings. The court has appointed an expert. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it was assumed that the further legal proceedings until a final judgement is enforceable will take approximately three years.

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

After the termination of the transaction, the derivative was derecognized and a receivable was recognized under Receivables from customers (classified under *Loans and advances*). We base our assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim.

No amounts are being disclosed in application of IAS 37.92 (protective provisions for information in the notes).

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2015 consolidated financial statements:

The amendments to IAS 19 *Employee Benefits*: Defined Benefit Plans – Employee Contributions clarify the requirements that relate to how contributions from employees or third parties that are linked to services should be attributed to periods of service. They also permit an expedient if the amount of the contributions is independent of the number of years in service. The amended IAS 19 had no major impact on the consolidated financial statements of BAWAG Holding.

Annual Improvements to IFRSs 2010–2012 Cycle, which clarifies the following existing standards: IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, IAS 16 *Property, Plant and Equipment*, IAS 24 *Related Party Disclosures* and IAS 38 *Intangible Assets*. The clarifications had no impact on the consolidated financial statements of BAWAG Holding.

Annual Improvements to IFRSs 2011–2013 Cycle, which clarifies the following existing standards: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations*, IFRS 13 *Fair Value Measurement* and IAS 40 *Investment Property*. The clarifications had no impact on the consolidated financial statements of BAWAG Holding.

The following standards, amendments and interpretations to existing standards were approved by the International Accounting Standards Board (IASB) and endorsed by the EU but are not yet mandatory for the preparation of IFRS financial statements for the period ended 31 December 2015:

In December 2015, the EU endorsed *Disclosure Initiative (Amendments to IAS 1)*. The amendments are designed to further illustrate the concept of materiality and therefore reduce immaterial information in IFRS financial statements, while encouraging the communication of relevant information. It is clarified that the materiality concept is applicable to all parts of an IFRS financial statement, especially the notes. Immaterial information should not be presented, even if a standard explicitly requires a specific disclosure. Furthermore, material information should not be aggregated with immaterial information. Additional subtotals can be added to the Statement of Financial Position and the Statement of Comprehensive Income if this is relevant for a better understanding of the net assets, financial position and earnings situation. Moreover, it is clarified that the share of other comprehensive income of associated or joint ventures accounted for using the equity method should be presented in aggregate as a single line item based on whether it will subsequently be reclassified to profit or loss or not. In order to emphasize that the notes need not be presented in the order so far listed in IAS 1.114, additional examples of possible ways of ordering the notes are added, to make clear that understandability and comparability should be considered when determining the order of the notes. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful. The amendments are applicable to annual reporting periods beginning on or after 1 January 2016 and will lead to an amended presentation of other comprehensive income of BAWAG Holding.

In December 2015, the EU endorsed *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*. The amendments provide additional guidance on the methods permitted when calculating depreciation or amortization of property, plant and equipment and intangible assets. The amendments are applicable to annual reporting periods beginning on or after 1 January 2016 and will have no major impact on the consolidated financial statements of BAWAG Holding.

In November 2015, the EU endorsed *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*. The amendments bring bearer plants into the scope of IAS 16, are applicable to annual reporting periods beginning on or after 1 January 2016 and will not be applicable to the consolidated financial statements of BAWAG Holding.

In December 2015, the EU endorsed amendments to IAS 27 *Equity Method in Separate Financial Statements*, which reinstate the equity method as an accounting option in separate financial statements and are applicable to annual reporting periods beginning on or after 1 January 2016. IAS 27 is not applicable to the consolidated financial statements of BAWAG Holding.

In November 2015, the EU endorsed amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*, which clarify the accounting for acquisitions of an interest in a joint operation when the activity constitutes a business. The amended IFRS 11 is applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding from a current perspective.

In December 2015, the EU endorsed *Annual Improvements to IFRSs 2012–2014 Cycle*, which clarifies the following existing standards: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The clarifications are applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding.

The following standards and amendments approved by the International Accounting Standards Board (IASB) have not yet been endorsed by the European Union:

Already in July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value and fair value through other comprehensive income.

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 for sale and 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. The financial instrument is assessed in its entirety and measured at fair value through profit or loss. There are a few exceptions, e.g. for put, call, prepayment and extension options, and for interest rate caps or floors.

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39, with fair value changes related to changes in the entity's own credit risk recognized in other comprehensive income. There is an exception for the case when this practice would lead to inconsistencies in the measurement of assets and liabilities. The assessment must be performed at the initial recognition. A retrospective recognition of other comprehensive income from changes in the entity's own credit risk in the Profit or Loss Statement is not permitted.

IFRS 9 fundamentally changes the accounting model for impairments. Now, not only losses already sustained but not yet recognized ("incurred loss model") have to be accounted for, but also expected losses for future cash flows ("expected loss model").

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 were 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.

IFRS 9 will become mandatory for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 is expected to have a material impact on the processes and financial accounts of BAWAG Holding, but from a present-day perspective a reliable statement regarding the influence on future consolidated financial statements of BAWAG Holding cannot be made.

In December 2015, the IASB issued the amendment *Effective Date of Amendments to IFRS 10 and IAS 28*, which defers the effective date of the September 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded. The amendments will have no impact on the consolidated financial statements of BAWAG Holding from a current perspective.

Already in December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*. Issues which have arisen in the context of applying the consolidation exception for investment entities are addressed. The amendments are mandatory for annual reporting periods beginning on or after 1 January 2016 and are not applicable to the consolidated financial statements of BAWAG Holding.

IFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of the International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP. IFRS 14 is applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding.

In September 2015, the IASB deferred the effective date of IFRS 15 *Revenue from Contracts with Customers* from 1 January 2017 to 1 January 2018. IFRS 15 specifies when and how revenue from contracts with customers is to be recognized. IFRS 15 replaces the standards IAS 11 *Construction Contracts* and IAS 18 *Revenue*, as well as IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 will have no material impact on the consolidated financial statements of BAWAG Holding from a current perspective.

The IASB issued IFRS 16 *Leases* in January 2016.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). 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 Holding.

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Net interest income

in EUR million	2015	2014
Interest income	**1,051.3**	**1,089.9**
Cash reserves	0.1	0.3
Financial assets held for trading	116.5	138.0
Financial assets designated at fair value through profit or loss	11.0	23.8
Available-for-sale financial assets	89.3	122.6
Loans and receivables	656.4	643.4
Held-to-maturity investments	42.5	37.3
Derivatives – Hedge accounting, interest rate risk	135.3	124.5
Other assets	0.2	–
Interest expense	**(339.2)**	**(424.3)**
Deposits from central banks	(0.5)	–
Financial liabilities held for trading	(41.1)	(56.2)
Financial liabilities designated at fair value through profit or loss	(49.2)	(81.3)
Financial liabilities measured at amortized cost	(203.6)	(236.4)
Derivatives – Hedge accounting, interest rate risk	(35.0)	(35.6)
Provisions for social capital*)	(9.8)	(14.8)
Dividend income	**10.2**	**9.8**
Available-for-sale financial assets	10.2	9.8
Net interest income	**722.3**	**675.4**

*) Adjusted for 2014.

Interest income and similar income are recognized on an accrual basis. Interest income also includes premiums and discounts on securities classified as financial investments as well as premiums and discounts on acquired loan portfolios which are allocated in accordance with the accruals concept. Interest income on impaired receivables during 2015 amounted to EUR 2.8 million (2014: EUR 3.5 million).

3 | Net fee and commission income

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

in EUR million	2015	2014
Fee and commission income	**292.3**	**302.0**
Payment transfers	172.0	178.4
Lending	25.3	27.8
Securities and custody business	58.7	62.7
Other services	36.3	33.1
Fee and commission expense	**(106.4)**	**(104.2)**
Payment transfers	(38.3)	(39.5)
Lending	(1.9)	(2.2)
Securities and custody business	(4.9)	(11.5)
Others	(61.3)	(51.0)
Net fee and commission income	**185.9**	**197.8**

4 | Gains and losses on financial assets and liabilities

in EUR million	2015	2014
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**104.1**	**64.3**
Available-for-sale financial assets	62.5	57.1
Loans and receivables	3.4	14.0
Held-to-maturity investments	7.2	–
Financial liabilities measured at amortized cost	(17.3)	(10.9)
Gain from the sale of subsidiaries and associates	51.7	3.5
Other result	(3.4)	0.6
Gains (losses) on financial assets and liabilities held for trading, net	**(73.1)**	**(10.6)**
Gains (losses) on financial assets and liabilities at fair value through profit or loss, net	**28.3**	**(25.4)**
Gains (losses) from fair value hedge accounting	**1.0**	**3.6**
Fair value adjustment of hedged item	44.6	(328.7)
Fair value adjustment of hedging instrument	(43.6)	332.2
Exchange differences, net	**4.5**	**6.8**
Gains and losses on financial assets and liabilities	**64.8**	**38.7**

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sales of our investments, the sales of subsidiaries, issued securities and derivative transactions for customers.

in EUR million	2015	2014
Gains and losses on financial assets and liabilities excluding non-controlling interests	64.8	35.9
Gains and losses on financial assets attributable to non-controlling interests	–	2.7
Gains and losses on financial assets and liabilities according to Consolidated Profit or Loss Statement	**64.8**	**38.7**

5 | Other operating income and expenses

in EUR million	2015	2014
Net income from investment properties	(0.1)	(0.8)
Income from investment properties	0.8	0.4
Expenses relating to investment properties	(0.9)	(1.2)
Gains from the sale of property, plant and equipment	7.6	3.1
Losses from the sale of property, plant and equipment	(6.5)	(0.5)
Regulatory charges	(35.2)	(24.6)
Other income and expenses	(2.2)	12.5
Other operating income and expenses	**(36.4)**	**(10.3)**

In 2015, the line item Regulatory charges includes the bank levy and the contributions to the deposit guarantee scheme and to the Austrian bank resolution fund (2014: bank levy). The remeasurement of the collateral portion regarding the Austrian bank resolution fund in the amount of EUR 2.3 million is recognized in the gains and losses on financial assets and liabilities. Rental income from investment properties amounted to EUR 0.8 million in 2015 (2014: EUR 0.5 million); expenses amounted to EUR 0.8 million in 2015 (2014: EUR 1.0 million). Vacancy costs amounted to EUR 0.1 million (2014: EUR 0.2 million).

6 | Administrative expenses

in EUR million	2015	2014
Staff costs	**(250.3)**	**(284.4)**
Wages and salaries	(181.6)	(209.8)
Statutory social security contributions	(54.5)	(59.9)
Staff benefit costs	(9.8)	(9.8)
Increase of pension provision	(7.5)	(11.0)
Decrease of provision for severance payments	1.4	5.9
Decrease of provision for jubilee benefits	3.2	1.6
Staff benefit fund costs	(1.5)	(1.4)
Other administrative expenses	**(163.1)**	**(178.6)**
IT, data, communication	(48.3)	(53.7)
Real estate, utility, maintenance expenses	(47.8)	(48.5)
Advertising	(24.5)	(34.7)
Other general expenses*)	(15.6)	(13.9)
Other third party fees – legal, outsourcing, etc.	(14.1)	(11.8)
Postage fees	(8.1)	(10.2)
Regulatory projects and audit fees	(4.7)	(5.8)
Restructuring and other one-off expenses	**(19.5)**	**11.3**
Administrative expenses	**(432.9)**	**(451.7)**

*) Adjusted for 2014

The line item Restructuring and other one-off expenses, totaling minus EUR 19.5 million, mainly includes expenses for restructuring costs in 2015, mainly offset by the release of a provision for vacation pay, the reclassification of interest expense for social capital to net interest income and other pension-related items.

Change in presentation of interest expense within IAS 19 - Employee benefits

IAS 19 does not include any rules on the presentation of interest expense in the Profit or Loss Statement in connection with provisions for social capital. Accordingly, the interest component can be shown either under the line item interest expense or staff costs. Until 2014, the disclosure was made under the line item administrative expenses. In the current financial reporting period, the interest expense for the provision of social capital was reclassified from administrative expenses to interest expense to provide greater transparency and more straightforward interest cost allocation for social capital. Comparative amounts for the previous period were adjusted accordingly. The following table shows the effects in 2015 and 2014 on each item that was reclassified:

in EUR million	2015	2014
Decrease in administrative expenses	+9.8	+14.8
Increase in interest expense	(9.8)	(14.8)

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

in EUR million	2015	2014
Depreciation and amortization		
Brand name and customer relationships	(6.3)	(16.9)
Software and other intangible assets	(22.3)	(18.4)
Property, plant and equipment	(10.3)	(12.3)
Depreciation and amortization	**(38.9)**	**(47.6)**

8 | Risk costs

in EUR million	2015	2014
Loan loss provisions of Loans and receivables	(36.0)	(79.8)
Changes in provisions for off-balance credit risk	(0.9)	7.2
Impairment losses on financial assets	(1.1)	(4.5)
Provisions and expenses for operational risk*)	(7.8)	(7.2)
Impairment losses on non-financial assets	–	–
Risk costs	**(45.8)**	**(84.3)**

*) Adjusted for 2014.

Change in presentation of expenses for operational risk

In the current financial reporting period, the expenses for operational risk were reclassified from administrative expenses to risk costs to provide greater transparency for operational risk. Comparative amounts for the previous period were adjusted accordingly. The following table shows the effects in 2015 and 2014 on each item that was reclassified:

in EUR million	2015	2014
Decrease in administrative expenses	+7.8	+7.2
Increase in risk costs	(7.8)	(7.2)

Impairment losses on financial assets

in EUR million	2015	2014
Available-for-sale financial assets – equity investments	(1.1)	(4.5)
Available-for-sale financial assets – debt instruments	–	–
Held-to-maturity investments	–	–
Impairment losses on financial assets	**(1.1)**	**(4.5)**

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

The loss reported for 2015 of EUR 0.5 million (2014: profit EUR 0.9 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH as well as the impairment of the goodwill in BAWAG P.S.K. Versicherung in the amount of EUR 5.1 million.

The unrecognized share of the losses of entities that were accounted for using the equity method as provided by IFRS 12.22 (c) came to EUR 0.0 million (2014: EUR 0.0 million).

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

Associates accounted for using the equity method

in EUR million	2015	2014
Cumulated assets	2,417	2,396
Cumulated liabilities	2,293	2,278
Cumulated equity	125	118
Earned premiums (gross)	281	314
Fee and commission income	187	179
Cumulated net profit	24	22

The associates accounted for using the equity method are BAWAG P.S.K. Versicherung Aktiengesellschaft (stake of 25.00%) and PSA Payment Services Austria GmbH (stake of 20.82%), which was consolidated for the first time as of December 2014. For further details, please refer to Note 37 Related parties.

10 | Income taxes

in EUR million	2015	2014
Current tax expense	(3.3)	(1.8)
Deferred tax expense/income	(20.8)	1.3
Income taxes	**(24.1)**	**(0.5)**

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

in EUR million	2015	2014
Profit before tax	418.5	318.9
Tax rate	25%	25%
Computed tax expenses	**(104.6)**	**(79.7)**
Reductions in tax		
Due to tax-exempt income from equity investments	2.1	6.3
Due to gains and losses from the valuation of equity investments	6.4	11.5
Due to the sale of equity investments	–	0.5
Due to other tax-exempt income	3.5	2.2
Due to differing foreign tax rates	0.0	1.7
Due to use of tax loss carryforwards without recognition of deferred taxes	88.1	51.1
Due to other tax effects	3.9	11.0
Increases in tax		
Due to gains and losses from the valuation of equity investments	(2.2)	(0.2)
Due to the sale of equity investments	(15.8)	–
Due to unrecognized deferred taxes on tax loss carryforwards	(1.6)	(2.0)
Due to non tax deductible expenses	(3.4)	(0.1)
Due to other tax effects	(1.7)	(2.4)
Income tax in the period	**(25.3)**	**(0.3)**
Out-of-period income tax	1.2	(0.2)
Reported income tax (expense)	**(24.1)**	**(0.5)**

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 217 million (2014: EUR 253 million). The tax losses can be carried forward for an unlimited period. The taxed portion of the liability reserve was EUR 372.9 million (2014: EUR 372.9 million). The total liability reserve amounted to EUR 613.7 million as of 31 December 2015.

As of 31 December 2015, unused tax losses amounted to EUR 361 million (2014: EUR 1,485 million) at the level of BAWAG Holding, EUR 868 million (2014: EUR 1,205 million) at the level of BAWAG P.S.K., EUR 0 million (2014: EUR 91 million) at the level of members of the tax group included in the consolidated financial statements and EUR 66 million (2014: EUR 67 million) at the level of other companies included in the consolidated financial statements (BAWAG Malta Bank, which was sold in January 2016; therefore, this unused tax loss cannot be utilized in the future), for a total of EUR 1,295 million (2014: EUR 2,848 million). The difference compared to 2014 is primarily the result of the exclusion of impairment losses from the tax base. Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11 | Cash reserves

in EUR million	31.12.2015	31.12.2014
Cash on hand	378	335
Balances at central banks	431	349
Cash reserves	**809**	**684**

12 | Financial assets designated at fair value through profit or loss

in EUR million	31.12.2015	31.12.2014
Loans and advances to customers	159	179
Bonds and other fixed income securities	139	264
Shares and other variable rate securities	5	7
Financial assets designated at fair value through profit or loss	**303**	**450**

The category Financial assets designated at fair value through profit or loss contains all financial instruments that are carried at their fair value through profit or loss because the fair value option defined in IAS 39 has been exercised for them. Further information on the fair value option can be found in Note 1.

The maximum credit risk of loans and advances to customers equals book value.

13 | Available-for-sale financial assets

in EUR million	31.12.2015	31.12.2014
Debt instruments	**2,661**	**3,757**
Bonds and other fixed income securities	2,661	3,757
Public sector debt instruments	341	623
Bonds of other issuers	2,320	3,134
Equity investments	**84**	**102**
Recognized at cost		
Investments in non-consolidated subsidiaries	22	18
Interests in associates	19	46
Other shareholdings	39	38
Recognized at fair value		
Other shareholdings	4	–
Available-for-sale financial assets	**2,745**	**3,859**

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

Associates not accounted for using the equity method due to immateriality

in EUR million	31.12.2015	31.12.2014
Cumulated assets	494	551
Cumulated equity	80	80
Cumulated net profit	2	15

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG Holding as of 31 December 2015 were being prepared, financial statements as of 31 December 2014 were available for the majority of the respective entities (prior year: 31 December 2013).

From an economic point of view, we would like to note that the table above does not take the economic share invested into consideration. The average economic share is 40% (2014: 33%).

For further details, please refer to Note 37 Related parties.

14 | Held-to-maturity financial investments

in EUR million	31.12.2015	31.12.2014
Debt instruments	**2,290**	**2,042**
Bonds and other fixed income securities	2,290	2,042
Public sector debt instruments	574	565
Bonds of other issuers	1,716	1,477
Held-to-maturity financial investments	**2,290**	**2,042**

15 | Financial assets held for trading

in EUR million	31.12.2015	31.12.2014
Derivatives in trading book	**320**	**404**
Foreign currency derivatives	62	41
Interest rate derivatives	258	363
Derivatives in banking book	**630**	**759**
Foreign currency derivatives	152	58
Interest rate derivatives	478	698
Credit related derivatives	0	3
Financial assets held for trading	**950**	**1,163**

16 | Loans and receivables

The following breakdown depicts the composition of the item Loans and receivables. The financial assets in this category are measured at amortized cost.

					31.12.2015
in EUR 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
Securities	**973**	**–**	**–**	**–**	**973**
Public sector debt instruments	94	–	–	–	94
Debt instruments of other issuers	879	–	–	–	879
Receivables from credit institutions	**1,710**	**–**	**–**	**–**	**1,710**
Receivables from customers	**24,377**	**571**	**(170)**	**(65)**	**24,713**
Corporates and other customers	13,491	311	(24)	(2)	13,776
Retail	10,815	260	(146)	(17)	10,912
Central governments	71	–	–	–	71
IBNR portfolio provision[1)]	**–**	**–**	**–**	**(46)**	**(46)**
Total	**27,060**	**571**	**(170)**	**(65)**	**27,396**

1) Allowance for incurred but not reported losses.

in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	31.12.2014 Total net carrying amount
Securities	**1,983**	**–**	**–**	**–**	**1,983**
Public sector debt instruments	97	–	–	–	97
Debt instruments of other issuers	1,886	–	–	–	1,886
Receivables from credit institutions	**1,518**	**–**	**–**	**–**	**1,518**
Receivables from customers	**21,441**	**616**	**(226)**	**(52)**	**21,779**
Corporates and other customers	14,044	358	(63)	–	14,339
Retail	7,319	258	(163)	(11)	7,403
Central governments	78	–	–	–	78
IBNR portfolio provision[1)]	**–**	**–**	**–**	**(41)**	**(41)**
Total	**24,942**	**616**	**(226)**	**(52)**	**25,280**

1) Allowance for incurred but not reported losses.

The Receivables from customers are broken down into the following receivables classes.

The category Central governments includes receivables from central governments, primarily from the Republic of Austria in the case of BAWAG Holding Group.

The Corporates category includes larger enterprises with an exposure in excess of EUR 1 million or revenue of over EUR 50 million, and special financing agreements (project finance). Other customers cover public sector entities, churches and religious groups, political parties, associations and securities trading houses without a banking license.

The Retail category covers receivables from retail banking. This segment comprises individuals and small and medium-sized enterprises with an exposure of less than EUR 1 million or revenue of less than EUR 50 million.

The IBNR portfolio provision represents a provision for losses incurred but not reported yet.

The following breakdown depicts the composition of the item Loans and receivables according to the Group's segments.

in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	31.12.2015 Total net carrying amount
Retail Banking and Small Business	12,604	215	(136)	(18)	12,665
Corporate Lending and Investments	12,613	53	(34)	0	12,632
Treasury Services and Markets	171	0	0	0	171
Corporate Center	1,672	303	0	(47)	1,928
Total	**27,060**	**571**	**(170)**	**(65)**	**27,396**

in EUR 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
					31.12.2014
Retail Banking and Small Business	9,240	237	(158)	(11)	9,308
Corporate Lending and Investments	13,089	93	(67)	0	13,115
Treasury Services and Markets	959	0	0	0	959
Corporate Center	1,654	286	(1)	(41)	1,898
Total	**24,942**	**616**	**(226)**	**(52)**	**25,280**

Reclassifications

BAWAG Holding Group transferred available-for-sale financial assets to the Statement of Financial Position item Loans and receivables at their fair values in the amount of EUR 1,897 million as of 1 June 2010.

These reclassified assets are private placements and credit surrogates without derivative components. BAWAG Holding is of the opinion that the amortized cost of the reclassified assets offers relevant information for readers of the financial report.

As of 31 December 2015, the carrying amount of these reclassified assets amounted to EUR 60 million (2014: EUR 68 million). Their fair value amounted to EUR 60 million (2014: EUR 68 million). The decline in comparison to the previous year results primarily from redemptions.

As of 31 December 2015, an AFS reserve in the amount of EUR 1 million (2014: plus EUR 1 million) was recognized for reclassified financial assets. If the assets had not been reclassified, unrealized fair value changes in the amount of EUR 0 million (2014: EUR 0 million) would have been recognized in Other comprehensive income (in the AFS reserve) for available-for-sale financial assets.

After reclassification, the financial assets in question continued to make the following contribution to the pre-tax profit of the respective year:

in EUR million	2015	2014
Interest income	2.2	2.5
Profits from disposals	–	6.1

Changes in loan loss provisions

in EUR million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2015	**–**	**237**	**–**	**41**	**278**
Additions					
Changes in scope of consolidation	–	16	–	–	16
Provisions created through profit or loss	–	64	–	–	64
Others	–	–	–	7	7
Unwinding pursuant to IAS 39	–	3	–	–	3
Disposals					
Changes in scope of consolidation	–	–	–	–	–
Used as intended	–	(94)	–	–	(94)
Provisions released through profit or loss	–	(37)	–	(2)	(39)
Reclassification	**–**	**–**	**–**	**–**	**–**
Balance as of 31.12.2015	**–**	**189**	**–**	**46**	**235**

in EUR million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2014	**5**	**321**	**–**	**33**	**359**
Additions					
Provisions created through profit or loss	–	85	–	–	85
Unwinding pursuant to IAS 39	–	4	–	–	4
Disposals					
Changes in scope of consolidation	–	–	–	–	–
Used as intended	(3)	(134)	–	–	(137)
Provisions released through profit or loss	(2)	(29)	–	(2)	(33)
Reclassification	**–**	**(10)**	**–**	**10**	**–**
Balance as of 31.12.2014	**–**	**237**	**–**	**41**	**278**

The loan loss provisions break down by region as follows:

in EUR million	31.12.2015	31.12.2014
Austria	**223**	**257**
Abroad	**12**	**21**
Western Europe	9	16
Central and Eastern Europe	3	5
Loan loss provisions	**235**	**278**

17 | Receivables from credit institutions and customers

The following table depicts the breakdown of receivables from credit institutions and customers by credit type.

Receivables from credit institutions – breakdown by credit type

	Designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Demand deposits	–	–	211	163	211	163
Time deposits	–	–	1,358	1,199	1,358	1,199
Loans	–	–	140	156	140	156
Other	–	–	1	–	1	–
Receivables from credit institutions	**–**	**–**	**1,710**	**1,518**	**1,710**	**1,518**

Receivables from customers – breakdown by credit type

	Designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Current accounts	**–**	**–**	**1,041**	**1,423**	**1,041**	**1,423**
Cash advances	**–**	**–**	**131**	**151**	**131**	**151**
Loans	**159**	**179**	**22,258**	**19,533**	**22,417**	**19,712**
One-off loans	159	179	22,257	19,460	22,416	19,639
Other	–	–	1	73	1	73
Finance leases	**–**	**–**	**1.283**	**672**	**1.283**	**672**
Receivables from customers	**159**	**179**	**24,713**	**21,779**	**24,872**	**21,958**

18 | Asset maturities

The following table contains a breakdown of financial assets (excl. equity investments and derivatives) by remaining period to maturity. Assets without a defined maturity are classified as "Up to 3 months."

Financial assets – breakdown by remaining period to maturity 2015

					31.12.2015
in EUR million	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss					
Receivables from customers	4	61	42	52	**159**
Bonds and other fixed income securities	41	44	–	54	**139**
Available-for-sale financial assets					
Bonds and other fixed income securities	174	390	1,371	726	**2,661**
Held-to-maturity investments					
Bonds and other fixed income securities	75	154	1,001	1,060	**2,290**
Loans and receivables					
Receivables from customers	2,621	819	8,621	12,652	**24,713**
Receivables from credit institutions	1,571	8	1	130	**1,710**
Bonds and other fixed income securities	–	134	593	246	**973**
Total	**4,486**	**1,610**	**11,629**	**14,920**	**32,645**

Financial assets – breakdown by remaining period to maturity 2014

					31.12.2014
in EUR million	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss					
Receivables from customers	4	68	46	61	**179**
Bonds and other fixed income securities	21	50	147	46	**264**
Available-for-sale financial assets					
Bonds and other fixed income securities	176	366	2,310	905	**3,757**
Held-to-maturity investments					
Bonds and other fixed income securities	–	79	1,046	917	**2,042**
Loans and receivables					
Receivables from customers	2,007	1,449	8,168	10,155	**21,779**
Receivables from credit institutions	1,306	72	8	132	**1,518**
Bonds and other fixed income securities	–	153	1,317	513	**1,983**
Total	**3,514**	**2,237**	**13,042**	**12,729**	**31,522**

19 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment and investment properties 2015

in EUR million	Carrying amount 31.12.2014	Acquisition cost 01.01.2015	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2015	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**81**	**268**	**6**	**–**	**–**	**8**	**-79**	**-1**	**-143**	**59**	**-10**
Land and buildings used by the enterprise for its own operations	22	53	–	–	–	–	-33	–	-13	7	–
Office furniture and equipment	58	214	6	–	–	8	-46	–	-130	52	-10
Plant under construction	1	1	–	–	–	–	–	-1	–	–	–
Investment properties	**3**	**25**	**–**	**–**	**–**	**–**	**–**	**1**	**-22**	**4**	**–**

Changes in property, plant and equipment and investment properties 2014

in EUR million	Carrying amount 31.12.2013	Acquisition cost 01.01.2014	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2014	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**81**	**476**	**–**	**–**	**–**	**14**	**(72)**	**(150)**	**(187)**	**81**	**(12)**
Land and buildings used by the enterprise for its own operations	23	74	–	–	–	–	(21)	–	(31)	22	(1)
Office furniture and equipment	57	400	–	–	–	14	(51)	(149)	(156)	58	(11)
Plant under construction	1	2	–	–	–	–	–	(1)	–	1	–
Investment properties	**4**	**31**	**–**	**–**	**–**	**–**	**(6)**	**–**	**(22)**	**3**	**–**

No impairments have been recognized in profit or loss in the financial year 2015 (2014: EUR 0.0 million).

20 | Goodwill, Brand name and customer relationships and Software and other intangible assets

The brand name "BAWAG P.S.K." with a book value of EUR 42 million (2014: EUR 42 million) and customer relationships with a total book value of EUR 126 million (2014: EUR 132 million) are the Group's most important intangible non-current assets. The book value of the customer relationships is amortized according to the churnrate of the customers. In 2015 the churn rate of customers was revalued, after covering a sufficient observation period of 5 years. The revaluation revealed that the actual churnrates are much lower, indicating a longer stable relationship with the customers. As a result, the amortization of the customer relationships for 2015 was reduced by EUR 9.6 million to EUR 6.3 million. Of the total carrying amount for all intangible non-current assets, EUR 27 million (2014: EUR 30 million) can be attributed to Allegro projects (BAWAG P.S.K.'s core banking system) carried out in this context. Allegro's remaining average useful life is 8 years.

Changes in Goodwill, Brand name and customer relationships and Software and other intangible assets 2015

in EUR million	Carrying amount 31.12.2014	Acquisition cost 01.01.2015	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative amortization	Additions	Disposals	Reallocations	Write-downs cumulative	Reclassification to non-current assets and disposal groups classified as held for sale	Carrying amount 31.12.2015	Amortization (-), impairments (+) and reversal of impairments (+) Financial year
Goodwill	**58**	**624**	**–**	**–**	**–**	**–**	**–**	**(566)**	**–**	**58**	**–**
Brand name and customer relationships	**174**	**410**	**–**	**–**	**–**	**–**	**–**	**(242)**	**–**	**168**	**(6)**
Software and other intangible assets	**102**	**493**	**–**	**–**	**26**	**(8)**	**–**	**(408)**	**–**	**103**	**(22)**
Software and other intangible non-current assets	88	461	–	–	23	(7)	3	(390)	–	90	(21)
Thereof purchased	84	457	–	–	20	(7)	2	(388)	–	84	(20)
Thereof internally generated	4	4	–	–	3	–	1	(2)	–	6	(1)
Intangible non-current assets in development	3	4	–	–	1	–	(3)	–	–	2	–
Thereof purchased	2	3	–	–	1	–	(2)	–	–	2	–
Thereof internally generated	1	1	–	–	–	–	(1)	–	–	–	–
Rights and redemption payments	11	28	–	–	2	(1)	–	(18)	–	11	(1)

Changes in Goodwill, Brand name and customer relationships and Software and other intangible assets 2014

in EUR million	Carrying amount 31.12.2013	Acquisition cost 01.01.2014	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative amortization	Additions	Disposals	Reallocations	Write-downs cumulative	Reclassifica tion to non-current assets and disposal groups classified as held for sale	Carrying amount 31.12.2014	Amortization (-), impairments (+) and reversal of impairments (+) Financial year
Goodwill	**116**	**763**	**–**	**–**	**–**	**–**	**–**	**(647)**	**(58)**	**58**	**–**
Brand name and customer relationships	**191**	**410**	**–**	**–**	**–**	**–**	**–**	**(236)**	**–**	**174**	**(17)**
Software and other intangible assets	**83**	**445**	**–**	**–**	**35**	**(138)**	**150**	**(390)**	**–**	**102**	**(18)**
Software and other intangible non-current assets	66	410	–	–	31	(136)	156	(373)	–	88	(17)
Thereof purchased	66	288	–	–	27	(14)	156	(373)	–	84	(17)
Thereof internally generated	–	122	–	–	4	(122)	–	–	–	4	–
Intangible non-current assets in development	6	6	–	–	3	–	(6)	–	–	3	–
Thereof purchased	6	6	–	–	2	–	(6)	–	–	2	–
Thereof internally generated	–	–	–	–	1	–	–	–	–	1	–
Rights and redemption payments	11	29	–	–	1	(2)	–	(17)	–	11	(1)

No impairments have been recognized in profit or loss in the financial year 2015 (2014: EUR 0 million). No reversals of impairments have been recognized in the financial year 2015 and in the prior year.

Impairment testing for cash generating units with goodwill

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

in EUR million	31.12.2015	31.12.2014
easybank AG, Vienna	58	58
Goodwill	**58**	**58**

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

in %	2015	2014
Discount rate	10.1%	10.7%
Sustainable growth rate	1.0%	1.0%
Planned profit growth rate (average for the next five years)	2.5%	5.3%

The discount rate is before taxes and was estimated based on average equity returns in the sector. This discount rate was calculated based on the pre-tax interest rate required in IAS 36, taking into account the substantial tax loss carryforwards of BAWAG Holding Group. The risk-free interest rate used is the yield on government bonds with a remaining term to maturity of 30 years published by the German central bank. This discount rate is adjusted by applying a risk premium that reflects the higher general risk associated with an equity investment and the specific risk of the individual cash generating unit.

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make.

Sensitivity analysis as of 31.12.2015

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an increase in the discount rate or a decline in growth after 2016 could occur without the fair value of the cash generating unit sinking below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	**Change in growth after 2016 (in %)**
easybank AG, Vienna	1,033	<(100)%

Sensitivity analysis as of 31.12.2014

	Change in discount rate (in percentage pts)	**Change in growth after 2015 (in %)**
easybank AG, Vienna	2,263	<(100)%

21 | Tax assets

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

Net deferred tax assets on Statement of Financial Position

in EUR million	**31.12.2015**	**31.12.2014**
Financial liabilities designated at fair value through profit or loss	30	39
Loans and receivables	99	121
Provisions	51	63
Tax loss carryforwards	217	253
Other	4	1
Deferred tax assets	**401**	**477**
Financial assets designated at fair value through profit or loss	15	18
Available-for-sale financial assets	25	60
Held-to-maturity investments	–	2
Assets held for trading	48	56
Hedging derivatives	76	88
Internally generated intangible assets	2	1
Other intangible assets	42	43
Property, plant and equipment	1	1
Other	2	15
Deferred tax liabilities	**211**	**284**
Net deferred tax assets on Statement of Financial Position	**190**	**193**

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

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 217 million (2014: EUR 253 million). The tax losses can be carried forward for an unlimited period. The taxed portion of the liability reserve was EUR 372.9 million (2014: EUR 372.9 million). The total liability reserve amounted to EUR 613.7 million as of 31 December 2015.

As of 31 December 2015, unused tax losses amounted to EUR 361 million (2014: EUR 1,485 million) at the level of BAWAG Holding, EUR 868 million (2014: EUR 1,205 million) at the level of BAWAG P.S.K., EUR 0 million (2014: EUR 91 million) at the level of members of the tax group included in the consolidated financial statements and EUR 66 million (2014: EUR 67 million) at the level of other companies included in the consolidated financial statements (BAWAG Malta Bank, which was sold in January 2016; therefore, this unused tax loss cannot be utilized in the future), for a total of EUR 1,295 million (2014: EUR 1,495 million). The difference compared to 2014 is primarily the result of the exclusion of impairment losses from the tax base. Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

22 | Other assets

in EUR million	31.12.2015	31.12.2014
Accruals	21	28
Leasing objects not in operation yet	7	11
Other items	64	61
Other assets	**92**	**100**

The other items include accounts relating to payment in the amount of EUR 39 million (2014: EUR 35 million) and miscellaneous other assets in the amount of EUR 25 million (2014: EUR 26 million).

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

in EUR million	31.12.2015	31.12.2014
Issued bonds, subordinated and supplementary capital	**1,269**	**1,675**
Issued bonds (own issues)	149	158
Subordinated capital	123	361
Supplementary capital	25	25
Short-term notes and non-listed private placements	972	1,131
Financial liabilities designated at fair value through profit or loss	**1,269**	**1,675**

The Issued bonds are listed issues. The decrease compared to the previous year was driven by redemptions of own issues.

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

The carrying amount of the securities issued by BAWAG Holding Group and recognized at their fair value as of 31 December 2015 was EUR 77 million above their repayment amount (2014: EUR 132 million above the repayment amount).

24 | Financial liabilities held for trading

in EUR million	31.12.2015	31.12.2014
Derivatives trading book	**291**	**403**
Foreign currency derivatives	152	188
Interest rate derivatives	139	215
Derivatives banking book	**780**	**771**
Foreign currency derivatives	501	316
Interest rate derivatives	279	452
Credit related derivatives	–	3
Financial liabilities held for trading	**1,071**	**1,174**

25 | Financial liabilities measured at amortized cost

in EUR million	31.12.2015	31.12.2014
Deposits from banks	**3,586**	**2,420**
Deposits from customers	**21,692**	**21,127**
Savings deposits – fixed interest rates	2,363	3,463
Savings deposits – variable interest rates	4,556	4,297
Deposit accounts	5,490	5,344
Current accounts – Retail	6,488	5,654
Current accounts – Corporates	2,003	1,806
Other deposits[1)]	792	563
Issued bonds, subordinated and supplementary capital	**3,236**	**4,438**
Issued bonds	1,264	2,024
Subordinated capital	410	500
Supplementary capital	5	107
Short-term notes and unlisted private placements	1,557	1,807
Financial liabilities at amortized cost	**28,514**	**27,985**

1) Primarily time deposits.

The bonds issued by BAWAG Holding Group were listed securities.

26 | Issued bonds, subordinated and supplementary capital

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

	Recognized at fair value		**Recognized at amortized cost**		**Total**	
in EUR million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Issued bonds (own issues)	149	158	1,264	2,024	1,413	2,182
Subordinated capital	123	361	410	500	533	861
Supplementary capital	25	25	5	107	30	132
Short-term notes and unlisted private placements	972	1,131	1,557	1,807	2,529	2,938
Total	**1,269**	**1,675**	**3,236**	**4,438**	**4,505**	**6,113**

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

ISIN	Type	Currency	Nominal value in EUR million	Type of interest payment	Coupon	Maturity date
XS0830444039	Covered	EUR	500	Fixed	1.875%	18.09.2019
XS1298418184	Covered	EUR	500	Fixed	0.375%	01.10.2020
XS0987169637	Lower Tier II	EUR	300	Fixed	8.125%	30.10.2023

Hybrid Capital

After redeeming the last hybrid capital issue (BCF II) in June 2015, BAWAG Holding Group has no more hybrid capital issues recognized in its consolidated financial statements as of the reporting date.

27 | Deposits from customers

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

Deposits from customers – breakdown by product class and business sector

	At amortized cost	
in EUR million	**31.12.2015**	**31.12.2014**
Savings deposits	**6,919**	**7,760**
Savings accounts	4,389	4,099
Fixed-term investment savings accounts	2,384	3,484
Savings associations	146	177
Other deposits	**14,773**	**13,367**
Retail	9,946	8,854
Corporates	3,832	3,811
Non-credit institutions	626	354
Central governments	369	348
Deposits from customers	**21,692**	**21,127**

28 | Liabilities maturities

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

Financial liabilities – breakdown by remaining period to maturity 2015

					31.12.2015
in EUR million	**Up to 3 months**	**3 months up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Liabilities designated at fair value through profit or loss					
Bonds	–	18	98	33	**149**
Subordinated capital	–	18	21	84	**123**
Supplementary capital	5	20	–	–	**25**
Short-term notes and non-listed private placements	3	90	404	475	**972**
Liabilities at amortized cost					
Deposits from customers	17,290	2,821	1,416	165	21,692
Deposits from banks	2,144	33	1,091	318	**3,586**
Bonds	–	12	1,218	34	**1,264**
Subordinated capital	–	–	29	381	**410**
Supplementary capital	–	–	5	–	**5**
Short-term notes and non-listed private placements	–	119	272	1,166	**1,557**
Total	**19,442**	**3,131**	**4,554**	**2,656**	**29,783**

Financial liabilities – breakdown by remaining period to maturity 2014

in EUR million	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
					31.12.2014
Liabilities designated at fair value through profit or loss					
Bonds	–	5	120	33	**158**
Subordinated capital	–	230	14	117	**361**
Supplementary capital	–	–	25	–	**25**
Short-term notes and non-listed private placements	22	85	436	588	**1,131**
Liabilities at amortized cost					
Deposits from customers	15,828	3,697	1,411	191	21,127
Deposits from banks	738	129	1,114	439	**2,420**
Bonds	44	1,192	736	52	**2,024**
Subordinated capital	–	–	–	500	**500**
Supplementary capital	11	89	7	–	**107**
Short-term notes and non-listed private placements	5	51	294	1,457	**1,807**
Total	**16,648**	**5,478**	**4,157**	**3,377**	**29,660**

29 | Provisions

in EUR million	31.12.2015	31.12.2014
Provisions for social capital	390	489
Thereof for severance payments	96	98
Thereof for pension provisions	265	359
Thereof for jubilee benefits	29	32
Anticipated losses from pending business	24	27
Credit promises and guarantees	24	27
Other items including legal risks	5	6
Provisions	**419**	**522**

Provisions for social capital are long-term liabilities. The decrease of pension provisions is mainly due to voluntary early pension settlements and changing actuarial assumptions. Provisions for anticipated losses on pending business in the amount of EUR 18 million and other risks including legal risks in the amount of EUR 5 million are expected to be used after more than twelve months.

Changes in social capital

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2015	**371**	**98**	**32**	**501**
Service cost	1	5	2	8
Interest cost	7	2	1	10
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	(6)	–	–	(6)
due to other reasons, mainly experience results	(9)	(2)	(4)	(15)
Gain from settlements	(22)	–	–	(22)
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(15)	(8)	(2)	(25)
Payments from settlements	(50)	–	–	(50)
Other	(1)	1	–	–
Defined benefit obligation as of 31.12.2015	**276**	**96**	**29**	**401**
Fair value of plan assets	(11)	–	–	(11)
Provision as of 31.12.2015	**265**	**96**	**29**	**390**

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2014	**315**	**98**	**34**	**447**
Service cost	1	5	2	8
Interest cost	11	3	1	15
Actuarial gain/loss				
from demographic assumptions	(4)	1	(3)	(6)
from financial assumptions	64	6	1	71
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(15)	(9)	(3)	(27)
Other	(1)	(6)	–	(7)
Defined benefit obligation as of 31.12.2014	**371**	**98**	**32**	**501**
Fair value of plan assets	(12)	–	–	(12)
Provision as of 31.12.2014	**359**	**98**	**32**	**489**

At 31 December 2015, the weighted average duration was 14.98 years (2014: 15.26 years) for defined benefit obligations relating to pension plans and 11.46 years (2014: 12.09 years) for obligations arising from entitlement to severance payments.

Assignable unit-linked pension fund assets

in EUR million	2015	2014
Pension fund assets as of 01.01.2015	**12**	**12**
Additions	–	–
Payments	(1)	–
Pension fund assets as of 31.12.2015	**11**	**12**

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

The Pension fund assets consist of:

in %	2015	2014
Bonds	72%	77%
Equities	14%	14%
Cash and cash equivalents	1%	0%
Other	13%	9%

Bonds issued by BAWAG Holding Group amount to 0.04% of plan assets.

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

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

- a strategic asset mix comprising 57% government bonds, 15% corporates, 14% equities and 14% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: government bonds: 28%–86%, corporates: 0%–25%, equities: 0%–20%, other investments: 0%–20%;
- interest rate risk is monitored and managed through active duration risk management of all fixed income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 30%.

BAWAG Holding expects that payments in the amount of EUR 0.3 million will have to be made to the pension fund in 2016.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2015 in the amount of EUR 371 million:

Sensitivity analysis as of 31 December 2015

	Provisions for post-employment benefits and severance payments	
in EUR million	**Increase of variable**	**Decrease of variable**
Discount rate – 1 percentage point movement	325	429
Future salary growth – 1 percentage point movement	427	325
Attrition – 1 percentage point movement	355	374
Future mortality – 1 percentage point movement (post-employment benefits only)	275	277

Sensitivity analysis as of 31 December 2014

in EUR million	Provisions for post-employment benefits and severance payments	
	Increase of variable	**Decrease of variable**
Discount rate – 1 percentage point movement	410	545
Future salary growth – 1 percentage point movement	544	410
Attrition – 1 percentage point movement	451	472
Future mortality – 1 percentage point movement (post-employment benefits only)	370	372

Changes in other provisions

in EUR million	Balance 01.01.2015	Added	Used	Released	Balance 31.12.2015
Other provisions	**33**	**6**	**(5)**	**(5)**	**29**
Anticipated losses from pending business	27	4	(3)	(4)	24
Other items	6	2	(2)	(1)	5

in EUR million	Balance 01.01.2014	Added	Used	Released	Balance 31.12.2014
Other provisions	**68**	**3**	**(1)**	**(37)**	**33**
Anticipated losses from pending business	31	2	–	(6)	27
Other items	37	1	(1)	(31)	6

30 | Tax liabilities

Provisions for Deferred taxes

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

in EUR million	31.12.2015	31.12.2014
Financial assets designated at fair value through profit or loss	–	1
Available-for-sale financial assets	–	1
Other	–	2
Deferred tax liabilities	**–**	**4**
Net deferred tax liabilities on Statement of Financial Position	**–**	**4**

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to EUR 153 million (2014: EUR 209 million). IAS 12.39 stipulates that, in the case of temporary differences associated with investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will be reversed in the foreseeable future.

31 | Other obligations

in EUR million	31.12.2015	31.12.2014
Accounts relating to payment	247	228
Liabilities resulting from restructuring	141	120
Other liabilities	180	158
Accruals	8	6
Other obligations	**576**	**512**

32 | Disclosures in compliance with IFRS 5 – Assets in disposal groups and Obligations in disposal groups

According to IFRS 5, disposal groups consisting of assets and liabilities are to be classified as held for sale when the associated carrying amount stems primarily from a sale transaction and not from continued usage, and the sale is expected to be effected within twelve months. For this reason, the carrying amounts of the assets and liabilities of BAWAG Malta Bank Limited are reported on the Consolidated Statement of Financial Position under the items Assets in disposal groups and Obligations in disposal groups. The following table shows a breakdown of these items.

The proceeds of sale exceed the carrying amount of the related net assets and, accordingly, no impairment losses were recognized on the reclassification as held for sale.

The segment "Corporate Center" includes BAWAG Malta Bank Limited.

in EUR million	**2015**
Assets in disposal groups	**9**
Goodwill	–
Financial assets designated at fair value through profit or loss	–
Available-for-sale financial assets	5
Held-to-maturity financial investments	4
Other assets	–
Obligations in disposal groups	**–**
Provisions	–
Other obligations	–

33 | Hedging derivatives

in EUR million	**31.12.2015**	**31.12.2014**
Hedging derivatives in fair value hedges		
Positive market values	469	546
Negative market values	106	160

BAWAG Holding uses fair value hedge accounting to account for hedges of interest rate risk inherent in fixed-rate financial instruments. Hedging instruments are usually interest rate swaps. The hedged items are securities in the category Available-for-sale financial assets as well as the Bank's own issues, savings accounts and loans to customers that are recognized at amortized cost.

	Notional of hedged items		**Net book value of hedging instruments**		**Net result of hedged item and hedging instrument recognized in the financial year**	
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Available-for-sale financial assets	**1,135**	**1,605**	**(44)**	**(89)**	**–**	**(2)**
Securities	1,135	1,605	(44)	(89)	–	(2)
Financial instruments recognized at amortized cost	**11,207**	**11,375**	**407**	**475**	**1**	**6**
Securities	172	163	(7)	(9)	–	–
Own issues	2,462	3,224	212	284	(1)	5
Savings deposits of customers	2,552	3,592	27	30	1	1
Loans to customers	305	305	(47)	(54)	–	(1)
Liabilities to customers	5,716	4,091	222	224	1	1
Total	**12,342**	**12,980**	**363**	**386**	**1**	**4**

The effects of changes in the value of the hedging instrument and the hedged item are shown under Note 4 Gains and losses on financial assets and liabilities.

34 | Equity

Share Capital

BAWAG Holding GmbH has a fully paid in share capital of EUR 100 million which remained unchanged compared to the previous year.

Dividends

The Managing Board decided to propose a motion for a dividend of EUR 325 million to the general assembly for the financial year 2015. By way of a resolution dated 29 October 2015, a dividend in the amount of EUR 12 million was paid to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding GmbH. The dividend was taken into account in the calculation of the regulatory ratios.

Non-Controlling Interests

The acquisition of the 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of EUR 1 million.

Liability Reserve (Haftrücklage)

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

Changes in other comprehensive income

in EUR million	Capital reserve	Retained reserves	AFS reserve	Actuarial gains/losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2015	**–**	**394.4**	**(65.9)**	**12.6**	**341.1**	**–**	**341.1**
Consolidated profit/loss	–	394.4	–	–	394.4	–	394.4
Income and expenses recognized directly in equity	**–**	**–**	**(65.9)**	**12.6**	**(53.3)**	**–**	**(53.3)**
Changes in AFS reserves	–	–	(92.5)	–	(92.5)	–	(92.5)
Income and expenses recognized directly in equity (before taxes)	–	–	(92.5)	–	(92.5)	–	(92.5)
Share of other comprehensive income of associates accounted for using the equity method	–	–	2.2	–	2.2	–	2.2
Actuarial gains (losses) on defined benefit pension plans	–	–	–	16.8	16.8	–	16.8
Income taxes	–	–	24.4	(4.2)	20.2	–	20.2

in EUR million	Capital reserves	Retained reserves	AFS reserve	Actuarial gains/losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2014	**(201.6)**	**509.8**	**8.1**	**(50.1)**	**266.2**	**10.2**	**276.4**
Release of capital reserves	(201.6)	201.6	–	–	–	–	–
Consolidated profit/loss	–	308.2	–	–	308.2	10.2	318.4
Income and expenses recognized directly in equity	**–**	**–**	**8.1**	**(50.1)**	**(42.0)**	**–**	**(42.0)**
Changes in AFS reserves	–	–	9.3	–	9.3	–	9.3
Income and expenses recognized directly in equity (before taxes)	–	–	9.3	–	9.3	–	9.3
Share of other comprehensive income of associates accounted for using the equity method	–	–	1.5	–	1.5	–	1.5
Actuarial gains (losses) on defined benefit pension plans	–	–	–	(66.8)	(66.8)	–	(66.8)
Income taxes	–	–	(2.7)	16.7	14.0	–	14.0

Deferred income taxes recognized in Other comprehensive income

	Before taxes	Income taxes	After taxes	Before taxes	Income taxes	After taxes
in EUR million	**01.01.–31.12.2015**			**01.01.–31.12.2014**		
AFS reserve	(90.3)	24.4	(65.9)	10.8	(2.7)	8.1
Actuarial gains (losses) on defined benefit pension plans	16.8	(4.2)	12.6	(66.8)	16.7	(50.1)
Income and expenses recognized directly in equity	**(73.5)**	**20.2**	**(53.3)**	**(56.0)**	**14.0**	**(42.0)**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2015.

The segment reporting presents the results of the operating business segments of BAWAG Holding 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 Group's segment report used to assess the Performance of and to allocate resources to the segments is based on BAWAG P.S.K. Group and does not include BAWAG Holding GmbH and revaluations recognized on BAWAG Holding level. Therefore, income and expenses recognized on BAWAG Holding level are shown in the column "reconciliation".

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. This method was validated and adjusted in 2015 to ensure that costs are accurately reflected in the internal funds transfer pricing. The interest rate risk is managed actively through asset and liability management, and the results of this are reported by the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective units of the Company on the basis of where they are incurred. The overhead costs are assigned to the individual segments according to an allocation factor. The international mortgage portfolio is – in line with the nature of the asset class – assigned to the segment Retail Banking and Small Business.

BAWAG Holding has been managed in accordance with the following four main business and reporting segments, while the responsibilities for the operational decisions remain unchanged.

- **Retail Banking and Small Business –** includes savings, payment, card and lending activities for our private customers, investment and insurance services, small business lending and financial services including our social housing activities, as well as leasing products. This segment also includes our 100% direct banking subsidiary *easybank.*
- **Corporate Lending and Investments –** includes our Austrian corporate lending activities and other fee-driven financial services as well as our international corporate and real estate financing activities.
- **Treasury Services and Markets –** includes the activities associated with providing trading and investment services for our Group treasury activities including certain asset-liability management activities and the investment results of our portfolio of financial securities.
- **Corporate Center –** includes unallocated items related to Group support functions for the entire Group and certain activities and results related to subsidiary and participation holdings as well as the results of our liquidity portfolio. Furthermore, the operational risk is allocated to this segment.

Our segments are aligned with our business strategies as well as our objective of providing transparent reporting of our business unit and Group-wide results, including minimizing financial impacts and activities within the Corporate Center.

The segments in detail:

in EUR million	Retail Banking and Small Business 2015	Retail Banking and Small Business 2014	Corporate Lending and Investments 2015	Corporate Lending and Investments 2014	Treasury Services and Markets 2015	Treasury Services and Markets 2014	Corporate Center 2015	Corporate Center 2014	Reconciliation 2015	Reconciliation 2014	Total 2015	Total 2014
Net interest income	393.4	398.0	241.6	212.6	56.9	52.6	30.4	14.1	0.0	(1.8)	722.3	675.5
Net fee and commission income	152.6	159.8	39.2	42.4	0.0	0.0	(5.9)	(4.5)	0.0	0.1	185.9	197.8
Core revenues	**546.0**	**557.8**	**280.8**	**255.0**	**56.9**	**52.6**	**24.5**	**9.6**	**0.0**	(1.7)	**908.2**	**873.3**
Gains and losses on financial instruments	0.8	0.8	(0.9)	3.4	13.8	24.8	63.2	6.8	(12.1)	0.2	64.8	36.0
Other operating income and expenses	0.4	3.3	0.0	0.0	0.0	0.0	(1.6)	11.0	0.0	0.0	(1.2)	14.3
Operating income	**547.2**	**561.9**	**279.9**	**258.4**	**70.7**	**77.4**	**86.1**	**27.4**	**(12.1)**	**(1.5)**	**971.8**	**923.6**
Operating expenses	**(320.7)**	**(363.5)**	**(84.0)**	**(80.9)**	**(19.0)**	**(21.6)**	**(35.6)**	**(11.2)**	**(12.5)**	**(22.1)**	**(471.8)**	**(499.3)**
Regulatory charges							(35.2)	(24.6)	0.0	0.0	(35.2)	(24.6)
Total risk costs	(33.7)	(41.5)	(6.3)	(34.5)	0.0	0.0	(5.8)	(5.7)	0.0	(2.7)	(45.8)	(84.3)
Share of the profit or loss of associates accounted for using the equity method							4.6	0.9	(5.1)	0.0	(0.5)	0.9
Profit before tax	**192.8**	**156.9**	**189.6**	**143.0**	**51.7**	**55.8**	**14.1**	**(13.2)**	**(29.7)**	(26.3)	**418.5**	**316.2**
Income taxes							(30.3)	(8.8)	6.2	8.3	(24.1)	(0.5)
Profit after tax	**192.8**	**156.9**	**189.6**	**143.0**	**51.7**	**55.8**	**(16.2)**	**(22.0)**	**(23.5)**	(18.0)	**394.4**	**315.7**
Non-controlling interests							0.0	0.6	0.0	6.9	0.0	7.5
Net profit	**192.8**	**156.9**	**189.6**	**143.0**	**51.7**	**55.8**	**(16.2)**	**(22.6)**	**(23.5)**	(24.9)	**394.4**	**308.2**
Business volumes												
Assets	12,822	9,579	13,188	13,885	4,526	5,755	4,979	5,432	193	203	35,708	34,854
Refinancing of business	18,866	18,746	2,873	3,230	0	0	13,776	12,675	193	203	35,708	34,854
Risk-weighted assets	4,756	3,420	6,827	7,643	1,638	2,172	3,038	3,557	10	19	16,269	16,811

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

in EUR million	2015	2014
Gains and losses on financial instruments according to segment report	64.8	36.0
Gains and losses on financial assets attributable to non-controlling interests	–	2.7
Gains and losses on financial assets and liabilities according to Consolidated Profit or Loss Statement	**64.8**	**38.7**

in EUR million	2015	2014
Other operating income and expenses according to segment report	(1.2)	14.3
Regulatory charges	(35.2)	(24.6)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(36.4)**	**(10.3)**

in EUR million	2015	2014
Profit before tax according to segment report	418.5	316.2
Gains and losses on financial assets attributable to non-controlling interests	–	2.7
Profit before tax according to Consolidated Profit or Loss Statement	**418.5**	**318.9**

CAPITAL MANAGEMENT

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

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

As part of the SREP (Supervisory Review and Evaluation Process) within the JRAD (Joint Risk Assessment and Decision) framework and in accordance with the Comprehensive Bank Assessment of the ECB, the overall risk management process of Promontoria Sacher Holding N.V. Group was reviewed in detail. As a result, it was concluded that the level of own funds held within Promontoria Sacher Holding N.V. Group with respect to its financial situation and risk profile is broadly adequate. The official notification also includes the specification of an SREP (Supervisory Review and Evaluation Process) ratio at the level of Promontoria Sacher Holding N.V. Group, which requires the maintenance of minimum capital ratios in pillar 1 to meet the requirements for pillar 2.

In addition to the minimum capital ratios required by the regulators, BAWAG P.S.K. defines early warning and recovery levels in Promontoria Sacher Holding N.V.'s recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Resolution and Recovery Act").

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

The budgeted business volumes are also compared with the expected movements in the eligible own funds at the beginning of every financial year. In addition to the risk-weighted assets, the calculation also includes the own funds requirement for the securities trading book and the own funds requirement to cover operational risk. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

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

BAWAG P.S.K. manages the Group's capital position based on a fully loaded CRR environment and therefore without the benefit of any transitional capital components. The Capital Management Team gives recommendations to the Managing Board of BAWAG P.S.K. AG for strengthening the own funds coverage when necessary and reports to the Bank's Enterprise Risk Meeting once a month.

Since 2014, regulatory reporting has been performed on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group as the EU parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds of Promontoria Sacher Holding N.V. Group applying transitional rules and its own funds requirement as per 31 December 2015 and as per 31 December 2014 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	Promontoria[2)]	
in EUR million	**31.12.2015**	**31.12.2014**
Share capital	**0**	**0**
Reserves (including funds for general banking risk) after deduction of intangible assets	2,434	2,463
Other comprehensive income	(33)	20
IRB risk provision shortfall	(20)	(11)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains	(56)	(148)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(13)	0
Excess of deduction from AT1 items over AT1 capital	(189)	(235)
Common Equity Tier I	**2,123**	**2,089**
Hybrid capital[1)]	0	68
IRB risk provision shortfall	(15)	(21)
Deduction of intangible assets	(174)	(282)
Excess of deduction from AT1 items over AT1 capital	189	235
Additional Tier I	**0**	**0**
Tier I	**2,123**	**2,089**
Supplementary and subordinated debt capital	477	533
Hybrid capital[1)]	0	17
Excess IRB risk provisions	16	21
IRB risk provision shortfall	(36)	(43)
Tier II	**457**	**528**
Own funds	**2,580**	**2,617**

1) According to CRR, hybrid capital is partially eligible among Additional Tier I and Tier II. In June 2015, the last eligible hybrid capital was redeemed.
2) Own funds as of 31 December 2015 differ from those as of 31 December 2014 inter alia because of different CRR transitional rules for 2015 and 2014 for the eligibility of capital and deductions from own funds. Furthermore, a foreseeable dividend is included.

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

	Promontoria	
in EUR million	**31.12.2015**	**31.12.2014**
Credit risk	14,486	14,939
Market risk	97	103
Operational risk	1,620	1,615
Capital requirements (risk-weighted assets)	**16,203**	**16,657**

Supplemental information on a fully loaded basis

	Promontoria		**BAWAG Holding[1)]**	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Common Equity Tier 1 capital ratio based on total risk	12.4%	11.8%	13.2%	12.2%
Total capital ratio based on total risk	15.3%	15.4%	16.1%	15.9%

1) Figures as shown in the Group Management Report.

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Common Equity Tier 1 capital ratio based on total risk	13.1%	12.5%	13.9%	13.0%
Total capital ratio based on total risk	15.9%	15.7%	16.7%	16.2%

During the financial year 2015, BAWAG Holding always complied with the imposed capital requirement of 4.5% for Common Equity Tier 1 ratio and of 8% for Total capital ratio according to CRR.

BAWAG P.S.K. has managed the Group's capital structure on a fully loaded basis from the very beginning, not taking into account any transitional rules. Our target CET1 ratio in 2015 was 12% on a fully loaded basis. We delivered a much stronger ratio, coming in at 13.2%. Going forward, we will continue to maintain a fully loaded CET1 ratio above 12%.

FURTHER DISCLOSURES REQUIRED BY IFRS

35 | Fair value

The following table depicts the fair values of the Statement of Financial Position items. These are the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. If market prices were available on a stock exchange or other functioning market, they were used.

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 Holding Group), and, in individual cases, other current financial assets in the Group'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 measurement of fair value of customer business was carried out by applying credit spreads for each customer category. The blanket credit spreads are applied for the following customer categories: credit institutions, commercial customers, public sector and private customers, for which mortgage loans and other loans are considered separately. The credit spreads in customer business are derived by analyzing both external data (market developments and OeNB statistics) and internal default statistics.

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 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.

In 2015, the portion of change in fair values of securities issued by BAWAG Holding Group accounted for solely by changes in our credit spreads was minus EUR 7.3 million (minus EUR 7.0 million as of 31 December 2014). As of 31 December 2015, the cumulative fair value change resulting from changes in our credit rating amounted to EUR 24.6 million (EUR 33.1 million as of 31 December 2014).

A one basis point narrowing of the credit spread is expected to change their valuation by minus EUR 0.3 million (minus EUR 0.4 million as of 31 December 2014).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to minus EUR 0.3 million as of 31 December 2015 and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus EUR 6.5 million (plus EUR 2.8 million as of 31 December 2014).

A one basis point narrowing of the credit spread is expected to change their valuation by plus EUR 1.07 million (plus EUR 0.12 million as of 31 December 2014).

Fair values of selected items on the Statement of Financial Position

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

in EUR million	Carrying amount 31.12.2015	Fair value 31.12.2015	Carrying amount 31.12.2014	Fair value 31.12.2014
Assets				
Cash reserves	809	809	684	684
Financial assets designated at fair value through profit or loss	303	303	450	450
Available-for-sale financial assets				
Recognized at fair value	2,665	2,665	3,757	3,757
Recognized at cost	80	n/a	102	n/a
Held-to-maturity investments	2,290	2,369	2,042	2,150
Assets held for trading	950	950	1,163	1,163
Loans and receivables	27,396	27,543	25,280	25,629
Hedging derivatives	469	469	546	546
Property, plant and equipment	59	n/a	81	n/a
Investment properties	4	6	3	6
Intangible non-current assets	329	n/a	334	n/a
Other assets	345	n/a	344	n/a
Assets in disposal groups	9	n/a	68	n/a
Total assets	**35,708**		**34,854**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,269	1,269	1,675	1,675
Liabilities held for trading	1,071	1,071	1,174	1,174
Financial liabilities at amortized cost	28,514	28,755	27,985	28,312
Financial liabilities associated with transferred assets	621	621	–	–
Valuation adjustment on interest rate risk hedged portfolios	169	169	196	196
Hedging derivatives	106	106	160	160
Provisions	419	n/a	522	n/a
Other obligations	582	n/a	517	n/a
Obligations in disposal groups	–	n/a	6	n/a
Equity	2,956	n/a	2,619	n/a
Non-controlling interests	1	n/a	–	n/a
Total liabilities and equity	**35,708**		**34,854**	

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.

The available-for-sale financial assets include EUR 80 million in investments in private and public limited companies. The fair value of these financial instruments has not been disclosed because their fair value cannot be measured reliably. There is no active market for these financial instruments and future cash flows cannot be calculated reliably. Two equity investments recognized at cost were sold in 2015 and, thus, derecognized. Their carrying amount at the time of derecognition was EUR 25 million and a gain of EUR 13.3 million was recognized. BAWAG Holding does not intend to sell or derecognize significant investments in equity held at the reporting date in the near future.

Fair value hierarchy

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

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

– **Level 2:** The value is measured by using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values;

– **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. Loans and receivables and financial liabilities classified at amortized cost are valued using the discounted cash flow method using a spread adjusted swap curve;

– **Other:** This pertains to stakes in non-consolidated subsidiaries that are classified as available for sale.

					31.12.2015
in EUR million	**Level 1**	**Level 2**	**Level 3**	**Others[1)]**	**Total**
Assets				–	
Financial assets designated at fair value through profit or loss	3	298	2	–	**303**
Available-for-sale financial assets	2,587	74	4	80	**2,745**
Held-to-maturity investments	2,364	5	–	–	**2,369**
Assets held for trading	–	950	–	–	**950**
Loans and receivables	–	2,134	25,409	–	**27,543**
Hedging derivatives	–	469	–	–	**469**
Investment properties			6		6
Total fair value assets	**4,954**	**3,930**	**25,421**	**80**	**34,385**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	801	468	–	**1,269**
Liabilities held for trading	–	1,071	–	–	**1,071**
Financial liabilities at amortized cost	–	5,898	22,857	–	**28,755**
Financial liabilities associated with transferred assets		621	–	–	**621**
Valuation adjustment on interest rate risk hedged portfolios	–	169	–	–	169
Hedging derivatives	–	106	–	–	106
Total fair value liabilities	**–**	**8,666**	**23,325**	**–**	**31,991**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.

in EUR million	Level 1	Level 2	Level 3	Others[1)]	31.12.2014 Total
Assets					
Financial assets designated at fair value through profit or loss	3	443	4	–	**450**
Available-for-sale financial assets	3,509	248	–	102	**3,859**
Held-to-maturity investments	2,141	9	–	–	**2,150**
Assets held for trading	–	1,163	–	–	**1,163**
Loans and receivables	–	2,870	22,759	–	**25,629**
Hedging derivatives	–	546	–	–	**546**
Investment properties	–	–	6	–	6
Total fair value assets	**5,653**	**5,279**	**22,769**	**102**	**33,803**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	1,150	525	–	**1,675**
Liabilities held for trading	–	1,174	–	–	**1,174**
Financial liabilities at amortized cost	–	5,837	22,467	–	**28,304**
Valuation adjustment on interest rate risk hedged portfolios	–	196	–	–	**196**
Hedging derivatives	–	160	–	–	160
Total fair value liabilities	**–**	**8,517**	**22,992**	**–**	**31,509**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.

BAWAG Holding 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 2015, one available-for-sale security was moved from Level 1 to Level 2 due to subsequent illiquid market prices.

Five available-for-sale securities 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 EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2015	**4**	**–**	**525**
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	1	–	(19)
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	–	4	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	–	–
Redemptions	(2)	–	(38)
Sales	–	–	–
Foreign exchange differences	–	–	–
Transfers into or out of Level 3	–	–	–
Closing balance as of 31.12.2015	**2**	**4**	**468**

in EUR million	Financial assets designated at fair value through profit or loss	Financial liabilities
Opening balance as of 01.01.2014	**7**	**540**
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	(2)	15
for assets no longer held at the end of the period	2	–
Purchases	–	–
Redemptions	(3)	(30)
Sales	–	–
Foreign exchange differences	–	–
Transfers into or out of Level 3	–	–
Closing balance as of 31.12.2014	**4**	**525**

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

Holdings in the amount of EUR 2 million that were reported as Level 3 financial instruments on 31 December 2014 were disposed of in the financial year 2015. Financial liabilities in the amount of EUR 38 million that were reported under Level 3 in 2014 were redeemed in the financial year 2015.

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 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 spread premium is currently 65 basis points (prior year: 65 basis points) for all maturities (mid).

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

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; BAWAG Holding Group had Level 3 financial assets recognized at their fair value in the amount of EUR 6 million as of 31 December 2015. If the credit spread used in calculating fair value of own issues of BAWAG P.S.K. Wohnbaubank is increased by 20 basis points, the accumulated valuation result as of 31 December 2015 would have increased by EUR 2.9 million (prior year: EUR 4 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 31 December 2015 would have decreased by minus EUR 1.8 million (prior year: minus EUR 1.2 million).

36 | Receivables from and payables to subsidiaries and associates

BAWAG Holding Group's receivables from and payables to non-consolidated subsidiaries and associates were as shown below. Business relationships with these entities were subject to normal banking terms and conditions.

Receivables from and payables to subsidiaries

in EUR million	31.12.2015	31.12.2014
Receivables from customers	58	63
Receivables from subsidiaries	**58**	**63**
Deposits from customers	32	17
Payables to subsidiaries	**32**	**17**

Interest income from business with subsidiaries in 2015 totaled EUR 3 million (2014: EUR 4 million) and interest expense EUR 1 million (2014: EUR 1 million).

Receivables from and payables to associates

in EUR million	31.12.2015	31.12.2014
Receivables from customers	142	163
Securities	23	22
Receivables from associates	**165**	**185**
Deposits from customers	79	28
Payables to associates	**79**	**28**

37 | Related parties

Owners of BAWAG Holding GmbH

BAWAG Holding GmbH is wholly owned by the Dutch financial holding company Promontoria Sacher Holding N.V. The shareholder structure of Promontoria Sacher Holding N.V. is as follows: (i) 52.14% is held by various funds that are connected with Cerberus, (ii) 39.77% is held by various funds and customer accounts that are managed by GoldenTree, and (iii) the remaining shares are held by a variety of Austrian and non-Austrian minorities.

Major non-fully consolidated Subsidiaries, Joint Ventures and Equity Investments of BAWAG Holding Group

BAWAG P.S.K. Versicherung AG

BAWAG Holding indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K. Versicherung AG is accounted for using the equity method in BAWAG Holding Group's accounts. The business dealings between BAWAG Holding Group and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG Holding Group and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

PSA Payment Services Austria GmbH

BAWAG Holding Group directly holds 20.82% in PSA Payment Services Austria GmbH. PSA is owned by several Austrian banks and banking groups and is engaged in the service and the organization of the ATM card business. PSA is accounted for using the equity method in BAWAG Holding Group's accounts.

Other Subsidiaries

Please refer to Note 51 for a list of all non-consolidated subsidiaries.

Transactions with Related Parties

The following table shows transactions with related parties:

					31.12.2015
in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	At-equity associates	Other companies
Loans and receivables – customers	–	1,134	58	–	145
Securities	–	–	–	22	–
Other assets (incl. derivatives)	20	–	7	–	–
Financial liabilities – customers	–	–	13	155	11
Other liabilities (incl. derivatives)	–	–	–	2	–
Guarantees provided	–	–	–	–	2
Interest income*)	–	54.9	1.9	0.3	3.2
Interest expense	–	–	0.1	2.3	–
Net fee and commission income	–	–	–	25.1	0.7

*) Gross income; hedging costs not offset.

in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	At-equity associates	Other companies
					31.12.2014
Loans and receivables – customers	–	1,085	63	–	164
Securities	–	62	–	22	–
Other assets (incl. derivatives)	4	2	7	–	–
Financial liabilities – customers	–	–	17	126	16
Other liabilities (incl. derivatives)	–	–	–	7	–
Guarantees provided	–	–	–	–	2
Interest income*)	–	25.7	2.2	0.4	3.4
Interest expense	–	–	–	2.8	–
Net fee and commission income	–	–	–	22.0	1.1

*) Gross income; hedging costs not offset.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to EUR 0.0 million in 2015 (2014: EUR 0.0 million).

Regarding related party transactions, no write-offs or loan loss provisions were required.

Information regarding Natural Persons

Key Management

Key management of BAWAG Holding Group refers to the members of the Managing Board and the Supervisory Board of BAWAG Holding GmbH and BAWAG P.S.K. AG. Total personnel expenses including share-based payments for the key management amount to EUR 26.6 million (2014: EUR 13.5 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Managing Board of BAWAG P.S.K. and BAWAG Holding GmbH during the financial year amounted to EUR 16.2 million (2014: EUR 10.2 million). Thereof EUR 4.0 million have been reimbursed by the shareholder Promontoria Sacher Holding N.V..

Expenditures for severance pay for the Managing Board came to EUR 1.4 million (2014: EUR 1.6 million).

At 31 December 2015, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members of BAWAG P.S.K. AG.

Payments of post-employment benefits to former members of the Managing Board and their surviving dependents came to EUR 2.0 million (2014: EUR 2.1 million).

As of the reporting date, there was no outstanding lease financing but there were three outstanding loans to members of the Managing Board in the amount of EUR 0.6 million (2014: EUR 0.0 million). Loans or leasing financing to members of the Supervisory Board totaled EUR 0.1 million (2014: EUR 0.2 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Managing Board and Supervisory Board members made use of current account limits in the amount of EUR 0 million (2014: EUR 0 million) as of the reporting date. Turnovers of credit cards guaranteed to third parties by the Bank that belong to Managing Board members amounted to EUR 0 million in December 2015 (2014: EUR 0 million). Turnovers of guaranteed credit cards that belong to members of the Supervisory Board amounted to EUR 0 million in December 2015 (2014: EUR 0 million).

A list of the Group's Boards and Officers can be found in an appendix to the Notes.

The remuneration scheme for Supervisory Board members of BAWAG P.S.K. AG approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive EUR 60,000 per calendar year, the Deputy Chairman shall receive EUR 40,000 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive EUR 30,000 per calendar year. The chairmen of the Risk and Credit and Audit and Compliance Committees each receive EUR 20,000 and all other members of the Risk and Credit and Audit and Compliance Committees each receive EUR 10,000 (these additional compensation measures do not apply for the Chairman of the Supervisory Board).

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to EUR 0.4 million in 2015 (2014: EUR 0.4 million). Works Council delegates to the Supervisory Board do not receive any remuneration. Remuneration of members of the Supervisory Board of BAWAG Holding GmbH amounted to EUR 0.3 million (2014: EUR 0.3 million).

Two members of the Supervisory Board of BAWAG Holding GmbH had a consulting agreement with BAWAG Holding GmbH in 2015. The expenses for 2015 amounted to EUR 2.3 million (2014: EUR 0.5 million).

Promontoria Sacher Holding N.V. initiated an award agreement for the granting of share appreciation rights (SARs) indexed to Promontoria stock to the Managing Board members, select senior employees and certain members of the Supervisory Board of BAWAG P.S.K. AG in the financial year 2013. BAWAG P.S.K. AG and BAWAG Holding GmbH are not a party to the transaction agreement.

The vesting conditions for the SARs require the contract parties to provide services to BAWAG P.S.K. AG within defined periods. According to IFRS 2.43B, the total value of these SARs is treated as a shareholder contribution (equity settled) with a corresponding increase in compensation expense, as neither BAWAG P.S.K. AG nor BAWAG Holding GmbH has an obligation to settle the share-based payment transaction. The fair value was calculated at the grant date with a binomial option pricing model which considers the specific requirements with respect to the retention of the beneficiaries. Equal portions of the grant are eligible to vest on each anniversary of the grant during the vesting period, such that the award vests in equal tranches over the vesting period. For the purpose of the valuation, stock exchange quotes of comparable financial institutions listed on stock exchanges in Austria, the Netherlands, Finland, Sweden and Denmark are taken into account. These financial institutions are present in markets/economies that are comparable to the one BAWAG P.S.K. is active in. The risk-free rate is based on Euro swap rates with corresponding terms of maturity.

The value included in the respective profit and loss line items in the financial year 2015 is EUR 8.0 million (2014: EUR 0.6 million). The value shown under equity amounts to EUR 24.4 million (2014: EUR 16.4 million), representing the total value of SARs.

Due to changed circumstances with regard to the time period between the issue of the SARs and the anticipated realization period, the realization period was changed from 1.5 to 3 years in 2014, resulting in an allocation of the expense over a total period of three years. For the reporting period 2015, the cumulative impact was minus EUR 8.0 million in operating expenses and plus EUR 8.0 million in capital reserves.

Business Relations with Related Parties

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

	Key management of the entity or its parent	**Other related parties**	**Key management of the entity or its parent**	**Other related parties**
in EUR million	**31.12.2015**	**31.12.2015**	**31.12.2014**	**31.12.2014**
Current account deposits	4	1	3	2
Savings deposits	0	3	1	2
Loans	1	2	0	2
Leasing	0	0	0	0
Securities	0	0	0	1
Interest income	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0

Not all managerial staff are entitled to post-employment benefits from the Group. The managerial employees who are entitled to post-employment benefits from the Group were awarded these entitlements under the provisions of the 1961 pension reform or on the basis of individual commitments by the Group. All employees are entitled to pension benefits from a pension fund under the provisions of the collective bargaining agreement for pension funds (defined contribution plan).

38 | Major changes in the Group's holdings

BAWAG Malta

In June 2015, BAWAG P.S.K. entered into an agreement to dispose of BAWAG Malta Bank. The closing of the sale took place on 29 January 2016.

BAWAG P.S.K. LEASING

With demerger and takeover agreement dated 25 March 2015 BAWAG P.S.K. LEASING GmbH demerged its core business Car Leasing by way of demerger for absorption into BAWAG P.S.K. Autoleasing GmbH, a newly founded 100% subsidiary of easybank AG, registered in the companies register on 26 February 2015.

The demerger was legally valid upon registration in the companies register on 1 May 2015. Effective on the same date, BAWAG P.S.K. Autoleasing GmbH changed its company name to BAWAG P.S.K. LEASING GmbH and the former BAWAG P.S.K. LEASING GmbH to BAWAG P.S.K. LEASING Holding GmbH.

Acquisition of VB Leasing Group

In 2015, BAWAG Holding Group acquired shares in VB Leasing Finanzierungsgesellschaft m.b.H. Group from immigon portfolioabbau ag Group (former ÖVAG). On 5 October 2015, after the fulfillment of all contractual requirements and customary closing conditions, BAWAG P.S.K. LEASING GmbH acquired 100% of the shares in VB Leasing Finanzierungsgesellschaft m.b.H. together with the two subsidiaries VB Technologie Finanzierungs GmbH (100%) and ACP-IT Finanzierungs GmbH (75%). On 1 December 2015, BAWAG P.S.K. acquired 100% of the shares in Leasing-west GmbH.

The leasing business of BAWAG Holding Group was further expanded by acquiring the former Volksbanken leasing business. By combining two in-market platforms, significant synergies are generated and our market share in the Austrian car leasing business significantly increased.

For the months from the acquisition date until 31 December 2015, the acquired companies contributed core revenues (net interest income and net commission income) of EUR 6.7 million and profit of EUR 2.2 million. If the acquisition had occurred on 1 January 2015, the companies would have contributed core revenues of EUR 19.7 million and profit of EUR 6.4 million.

The total consideration transferred at the date of acquisition was done in cash and amounted to EUR 33 million, of which EUR 3 million were paid in January 2016.

The Group incurred acquisition-related costs of EUR 0.5 million in legal fees and due diligence costs. These costs have been included in the line item Other operating expenses.

The 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests based on the proportionate interest in the recognized amounts of assets and liabilities in the amount of EUR 1.4 million.

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

in EUR million	**2015**
Loans and receivables	744
Customers	681
Credit institutions	63
Property, plant and equipment	2
Tax assets for deferred taxes	2
Other assets	60
Financial liabilities at amortized cost	641
Customers	641
Provisions	1
Tax liabilities for current taxes	2
Other obligations	121
Total identifiable net assets acquired	**44**
Total identifiable net assets acquired considering the Group's share (ACP 75%)	**42**
Total consideration transferred	**33**
Consolidation result[1)]	***9.5***
Restructuring expenses recognized in connection with the business combination from the date of acquisition until 31 December 2015	(9.4)

1) Recognized in other operating income and expenses.

The acquired leasing receivables in the amount of EUR 681 million represent the present value of estimated future cash flows. Additionally, loans and receivables from credit institutions in the amount of

EUR 63 million were acquired. The gross amounts of leasing receivables amounted to EUR 697 million and the contractual cash flows not expected to be collected amounted to EUR 16 million, which for technical reasons were not netted in the core systems.

According to IFRS 3, the consolidation result amounted to EUR 9.5 million, which was recognized in the Statement of Comprehensive Income in the line item Other operating income and expenses. This gain reflects the fact that the buyer has to bear the costs of centralizing VB Leasing, which was previously managed on a decentralized basis, including necessary administrative simplifications. For these measures, the leasing companies of BAWAG Holding Group recognized restructuring expenses (including restructuring reserves) in the amount of EUR 9.4 million in the months between the acquisition date and 31 December 2015.

BAWAG P.S.K. INVEST GmbH

The sale of BAWAG P.S.K. INVEST GmbH to Amundi S.A. was completed on 9 February 2015 after all regulatory clearances had been granted.

BAWAG Allianz Vorsorgekasse AG

The sale of our share to the co-shareholder was completed on 22 July 2015 after fulfilment of all conditions precedent.

Lotterien

BAWAG Holding Group sold its indirect share of 2.18% in Österreichische Lotterien GmbH effective 4 August 2015.

Other Major Changes in the Group's Holdings

In February 2015, BAWAG Holding Group sold its stakes in „THG" Thermenzentrum Geinberg Errichtungs-GmbH and „TBG" Thermenzentrum Geinberg Betriebsgesellschaft m.b.H.

By way of a share purchase agreement dated 20 March 2015 BAWAG Holding Group sold its stake in WED Holding Gesellschaft m b H.

In April 2015, easy green energy GmbH and easy green energy GmbH & Co KG were established by easybank AG and the cooperation partner Energie Steiermark AG.

BAWAG Capital Finance (Jersey) II Ltd. was dissolved and stricken from the register on 20 July 2015.

For further details, please refer to Notes 50 and 51.

39 | Assets pledged as collateral

in EUR million	**31.12.2015**	**31.12.2014**
Receivables and securities assigned to Oesterreichische Kontrollbank AG	472	533
Collateral pledged to the European Investment Bank	519	581
Cover pool for trust savings deposits	23	32
Cover pool for covered bonds	2,186	2,737
Collateral for tender facilities	2,319	1,001
Other collateral	16	27
Cash collateral for derivatives	314	320
Assets pledged as collateral	**5,849**	**5,231**

The Group pledges assets primarily for repurchase agreements which are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities.

Pledges for trust savings deposits are conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG).

Regarding export financing, receivables and securities assigned to Oesterreichische Kontrollbank AG are pledged.

Additionally, relevant collateral was provided for refinancing at the European Investment Bank.

40 | Total collateralized debt

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

in EUR million	31.12.2015	31.12.2014
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	472	534
Payables arising due to refinancing by the European Investment Bank	389	437
Trust savings deposits	19	21
Payables secured by the cover pool for covered bonds	1,227	1,388
Tender facilities	1,897	711
Negative market values of derivatives	317	320
Total collateralized debt	**4,321**	**3,411**

The line item Tender facilities refers to the Group's participation in the TLTRO and other tender facilities. These tender facilities correspond to the line item Collateral for tender facilities in the table above.

41 | Genuine repurchase agreements

in EUR million	31.12.2015	31.12.2014
Lender – receivables from credit institutions	–	59
Repurchaser – payables to credit institutions	621	–
Repurchase agreements	**621**	**59**

42 | Transferred assets that are not derecognized in their entirety

	Financial assets designated at fair value through profit or loss	
in EUR million	**31.12.2015**	**31.12.2014**
Carrying amount of transferred assets[1]	664	–
Carrying amount of associated liabilities	621	–

1) All of the transferred assets are bonds.

Transferred assets that are not derecognized in their entirety relate to genuine repurchase agreements. Since BAWAG Holding Group is still the owner of the transferred assets, it remains exposed to market, interest rate, currency and credit risk with regard to these assets. The transferred assets are blocked for sale and are not taken into account in the liquidity calculation.

43 | Collateral received that may be sold or repledged in the absence of default

The following table depicts the fair value of financial assets accepted as collateral that may be sold or repledged in the absence of default of the owner as well as the book value of the related receivables.

in EUR million	31.12.2015	31.12.2014
Collateral provided by borrower	–	70
Carrying amount of associated receivables	–	59

Collateral received that may be sold or repledged in the absence of default relates to reverse repurchase agreements.

44 | Subordinated assets

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

in EUR million	31.12.2015	31.12.2014
Loans and receivables	53	114
Subordinated assets designated at fair value through profit or loss	8	7
Subordinated assets designated as available-for-sale	109	–
Subordinated assets	**170**	**121**

45 | Offsetting financial assets and financial liabilities

BAWAG Holding Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG Holding currently does not have any legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in BAWAG Holding's Statement of Financial Position; or

– are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

						31.12.2015
				Amounts not offset in the Statement of Financial Position		
in EUR million	**Gross amounts of recognized financial assets**	**Gross amounts of financial liabilities offset in the Statement of Financial Position**	**Net amounts of financial assets presented in the Statement of Financial Position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives (excl. hedging derivatives)	950	–	950	476	294	**180**
Hedging derivatives	469	–	469	346	110	**13**
Loans to and receivables from customers	682	115	567	–	–	**567**
Total	**2,101**	**115**	**1,986**	**822**	**404**	**760**

						31.12.2014
				Amounts not offset in the Statement of Financial Position		
in EUR million	**Gross amounts of recognized financial assets**	**Gross amounts of financial liabilities offset in the Statement of Financial Position**	**Net amounts of financial assets presented in the Statement of Financial Position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives (excl. hedging derivatives)	1,163	–	1,163	545	333	**285**
Hedging derivatives	546	–	546	362	128	**56**
Reverse repo transactions	59	–	59	59	–	**–**
Loans to and receivables from customers	1,463	179	1,284	–	–	**1,284**
Total	**3,231**	**179**	**3,052**	**966**	**461**	**1,625**

Financial liabilities

						31.12.2015
				Amounts not offset in the Statement of Financial Position		
in EUR million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Financial instruments	Cash collateral pledged	Net amount
Derivatives (excl. hedging derivatives)	1,071	–	1,071	762	287	**22**
Hedging derivatives	106	–	106	81	25	**–**
Repo transactions	621	–	621	621	–	**–**
Customer deposits	115	115	–	–	–	**–**
Total	**1,913**	**115**	**1,798**	**1,464**	**312**	**22**

						31.12.2014
				Amounts not offset in the Statement of Financial Position		
in EUR million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Financial instruments	Cash collateral pledged	Net amount
Derivatives (excl. hedging derivatives)	1,174	–	1,174	1,091	83	**–**
Hedging derivatives	160	–	160	160	–	**–**
Customer deposits	179	179	–	–	–	**–**
Total	**1,513**	**179**	**1,334**	**1,251**	**83**	**–**

The following tables reconcile the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position to the respective line items in the Statement of Financial Position:

Financial assets

				31.12.2015
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	950	–	950
Hedging derivatives	Hedging derivatives	469	–	469
Loans to and receivables from customers	Loans to and receivables from customers	24,713	24,146	567
Total		**26,132**	**24,146**	**1,986**

				31.12.2014
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	1,163	–	1,163
Hedging derivatives	Hedging derivatives	546	–	546
Reverse repo transactions	Loans to and receivables from credit institutions	1,518	1,459	59
Loans to and receivables from customers	Loans to and receivables from customers	21,779	20,495	1,284
Total		**25,006**	**21,954**	**3,052**

Financial liabilities

				31.12.2015
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	1,071	–	1,071
Hedging derivatives	Hedging derivatives	106	–	106
Repo transactions	Financial liabilities associated with transferred assets	621	–	621
Customer deposits	Deposits from customers	21,692	21,692	–
Total		**23,490**	**21,692**	**1,798**

				31.12.2014
in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	1,174	–	1,174
Hedging derivatives	Hedging derivatives	160	–	160
Customer deposits	Deposits from customers	21,127	21,127	–
Total		**22,461**	**21,127**	**1,334**

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

in EUR million	31.12.2015	31.12.2014
Contingent assets	–	–
Contingent liabilities	**349**	**442**
Arising from guarantees	349	442
Unused customer credit lines	**5,467**	**5,920**
Thereof terminable at any time and without notice	4,196	4,525
Thereof not terminable at any time	1,271	1,395

47 | Foreign currency amounts

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

in EUR million	31.12.2015	31.12.2014
USD	2,520	2,264
CHF	2,166	2,340
GBP	3,789	1,069
Other	93	125
Foreign currency	**8,568**	**5,798**
EUR	**27,140**	**29,056**
Total assets	**35,708**	**34,854**
USD	554	509
CHF	19	505
GBP	154	35
Other	232	260
Foreign currency	**959**	**1,309**
EUR	**34,749**	**33,545**
Total liabilities	**35,708**	**34,854**

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

48 | Leasing

Finance Leasing from the View of BAWAG Holding Group as Lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG Holding leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

	31.12.2015			
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	359	748	108	**1,215**
As yet unrealized financial income	21	45	6	**72**
Receivables from finance leases (net investment value)	**338**	**703**	**102**	**1,143**

	31.12.2014			
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	172	409	130	**711**
As yet unrealized financial income	14	27	9	**50**
Receivables from finance leases (net investment value)	**158**	**382**	**121**	**661**

As of 31 December 2015, the non-guaranteed residual value amounts to EUR 40 million (2014: EUR 41 million).

There were no impairments recognized in respect of irrecoverable minimum lease installments (2014: EUR 0.0 million).

Operating Leasing from the View of BAWAG Holding Group as Lessee

The Group leases the majority of its offices and branches under various rental agreements. The lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

Future Minimum Lease Payments Required under Operating Leases

in EUR million	31.12.2015	31.12.2014
Future minimum rental payments		
Not later than one year	23	24
Over one year and not later than five years	64	69
Over five years	96	117
Total future minimum rental payments	**183**	**210**
less: Future minimum rentals to be received	2	2
Net future minimum rental payments	**181**	**208**
Rental payments for lease agreements	-24	-24
Rental income from sublease contracts	2	2

49 | Derivative financial transactions

Derivative financial transactions as of 31.12.2015

							31.12.2015
		Nominal amount/maturity[1]				Fair value[1]	
in EUR million		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**7,405**	**15,656**	**11,338**	**34,399**	**1,164**	**(527)**
Thereof	interest rate swaps banking book	6,195	10,661	9,134	25,989	889	(374)
	interest rate options banking book	12	231	300	543	17	(14)
	forward rate agreements banking book	–	–	–	–	–	–
	interest rate swaps trading book	828	3,295	1,468	5,592	205	(103)
	interest rate options trading book	370	1,469	436	2,275	53	(35)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**9,263**	**2,795**	**803**	**12,861**	**250**	**(645)**
Thereof	currency swaps banking book	1,275	1,559	659	3,493	20	(436)
	foreign currency forward transactions and options banking book	5,419	123	144	5,686	167	(57)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	2,568	1,112	–	3,681	62	(152)
Securities related business		**215**	**76**	**25**	**316**	**5**	**(5)**
Thereof	securities related business banking book	215	76	25	316	5	(5)
Total		**16,883**	**18,527**	**12,166**	**47,576**	**1,419**	**(1,177)**
Thereof	banking book business	13,116	12,650	10,262	36,028	1,099	(887)
	trading book business	3,767	5,877	1,904	11,548	320	(290)

1) Banking book derivatives include fair value hedging instruments.

Derivative financial transactions as of 31.12.2014

		31.12.2014					
		Nominal amount/maturity[1]				Fair value[1]	
in EUR million		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**9,098**	**16,588**	**12,850**	**38,536**	**1,566**	**(819)**
Thereof	interest rate swaps banking book	6,930	11,280	10,221	28,431	1,184	(587)
	interest rate options banking book	47	241	305	593	19	(17)
	forward rate agreements banking book	–	–	–	–	–	–
	interest rate swaps trading book	1,269	3,732	1,755	6,756	268	(129)
	interest rate options trading book	852	1,335	569	2,756	95	(86)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**6,758**	**6,377**	**974**	**14,109**	**131**	**(504)**
Thereof	currency swaps banking book	247	1,957	841	3,045	2	(207)
	foreign currency forward transactions and options banking book	3,894	1,142	133	5,169	88	(109)
	currency swaps trading book	–	1	–	1	–	–
	foreign currency forward transactions and options trading book	2,617	3,277	–	5,894	41	(188)
Securities related business		**289**	**652**	**55**	**996**	**12**	**(11)**
Thereof	securities related business banking book	289	652	55	996	12	(11)
Total		**16,145**	**23,617**	**13,879**	**53,641**	**1,709**	**(1,334)**
Thereof	banking book business	11,407	15,272	11,555	38,234	1,305	(931)
	trading book business	4,738	8,345	2,324	15,407	404	(403)

1) Banking book derivatives include fair value hedging instruments.

50 | List of consolidated subsidiaries

	31.12.2015		31.12.2014	
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG Malta Bank Limited, Sliema	F	100.00%	F	100.00%
BAWAG P.S.K. INVEST GmbH, Vienna	–	–	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
easybank AG, Vienna	F	100.00%	F	100.00%
Real estate				
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BPI Holding GmbH & Co KG., Vienna	F	100.00%	F	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
Leasing				
ACP IT-Finanzierungs GmbH, Vienna	F	75.00%	–	–
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH, Vienna (formerly: BAWAG P.S.K. Autoleasing GmbH)	F	100.00%	–	–
BAWAG P.S.K. LEASING Holding GmbH, Vienna (formerly: BAWAG P.S.K. LEASING GmbH)	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
Leasing-west GmbH, Kiefersfelden	F	100.00%	–	–
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
RF 17 BAWAG Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
START Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%
VB Leasing Finanzierungsgesellschaft m.b.H., Vienna	F	100.00%	–	–
VB Technologie Finanzierungs GmbH, Vienna	F	100.00%	–	–
Other non credit institutions				
BAWAG CAPITAL FINANCE II LIMITED, St. Helier	–	–	F	100.00%
BAWAG Finance Malta Ltd., Sliema	–	–	F	100.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
BV Vermögensverwaltung GmbH, Vienna	–	–	F	100.00%
E2E Kreditmanagement GmbH, Vienna	F	100.00%	F	100.00%
E2E Service Center Holding GmbH, Vienna	F	100.00%	F	100.00%
E2E Transaktionsmanagement GmbH, Vienna	F	100.00%	F	100.00%
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH, Vienna	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	E	20.82%
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%

F … Full consolidation, E … Equity method

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

	31.12.2015	31.12.2014
Banks		
BAWAG Allianz Vorsorgekasse AG, Vienna	–	50.00%
Real estate		
B.A.O. Immobilienvermietungs GmbH in Liqu., Vienna	–	33.33%
ROMAX Immobilien GmbH, Vienna	100.00%	–
Leasing		
BAWAG Leasing & fleet s.r.o., Bratislava	100.00%	100.00%
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
BAWAG Real Estate Leasing s.r.o., Prague	100.00%	100.00%
BPLCZ One s.r.o., Prague	100.00%	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	50.00%	50.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non-credit institutions		
AI-ALTERNATIVE INVESTMENTS LTD., St. Helier	100.00%	100.00%
Athena Burgenland Beteiligungen AG, Eisenstadt	38.30%	38.30%
Athena Wien Beteiligungen AG, Vienna	50.00%	50.00%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
AUSTWEST ANSTALT, Triesen	100.00%	100.00%
BAWAG Finance Malta Ltd., Sliema	100.00%	–
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	100.00%	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	100.00%
Bodensee Limited in Liqu., Sliema	51.00%	51.00%
BV Vermögensverwaltung GmbH, Vienna	100.00%	–
easy green energy GmbH, Vienna	49.00%	–
easy green energy GmbH & Co KG, Vienna	49.00%	–
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	61.64%	61.64%
LTB Beteiligungs GmbH, Vienna	–	25.10%
media.at GmbH, Vienna	26.30%	26.30%
MediaSelect GmbH, Vienna	26.30%	26.30%
mediastrategen GmbH, Vienna	26.30%	26.30%
MF BAWAG Blocker LLC, Wilmington	100.00%	100.00%
OmniMedia GmbH, Vienna	26.30%	26.30%
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%	50.00%
P.S.K. Handel und Vermietung GmbH. in Liqu., Vienna	–	100.00%
The Siesta Group Schlafanalyse GmbH, Vienna	–	24.60%
WBG Wohnen und Bauen Gesellschaft mbH Wien, Vienna	24.00%	24.00%

52 | Involvement with associated companies

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

in EUR million	**31.12.2015**	**31.12.2014**
Carrying amounts of all associates	43	37
Aggregated amount of the Group's share of profit or loss	(0.5)	0.9
Aggregated amount of the Group's share of other comprehensive income	2.2	1.5
Aggregated amount of the Group's share of total comprehensive income	1.7	2.4

53 | Non-consolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor for the determination of control over the entity. This is the case, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

- Restricted activities
- A narrow and well-defined objective
- Insufficient equity
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements or other means. The Group's exposure to unconsolidated structured entities comprises leasing companies engaging in special leasing to which BAWAG Holding Group provides the financing. The prior-year figures also included the portfolio of CLO investment, which was disposed of in the third quarter 2015.

The Group provides a different measure for the size of structured entities depending on their nature. Regarding other structured entities, the total assets of these entities in the amount of EUR 114 million (2014: EUR 117 million) best measures their size. For last year's disclosure regarding securitizations, this was the notional of notes in issue (EUR 752 million).

The table below sets out an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

in EUR million	**2015**	**2014**
Carrying amounts of assets in connection with investments in structured entities	**55**	**725**
on the balance sheet shown under Loans and receivables	55	725
Carrying amounts of liabilities in connection with investments in structured entities	**0**	**0**
Income	**0.4**	**13.6**
Interest income	0.4	13.6
Losses incurred during reporting period	0	0
Maximum exposure to loss	55	725

BAWAG Holding neither provided any financial or other support to an unconsolidated securitization vehicle during the financial year nor does it have any current intention to do so.

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG Holding and BAWAG P.S.K. 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 of BAWAG P.S.K. AG 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 operational risk matters and additionally relevant specific risk topics. Quarterly risk reports are submitted to the Supervisory Board's monitoring and control committees.

Risk management policies are reviewed regularly to reflect changes in regulatory requirements, market conditions as well as products and services offered by the Group.

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

– Commercial and Institutional Risk

– Retail Risk and Administration

– Strategic Risk

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

– Credit risk

– Market risk

– Liquidity risk

– Operational 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 capability.

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

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

The Group's economic risk-bearing capability, 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 defined warning levels are reached or the limits are exceeded, escalation processes are initiated.

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

– Credit risk is quantified using the IRB approach. 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: The Group has identified the interest rate risk in the banking book and the 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.

– Operational risk is quantified using a value-at-risk model.

– Other risks: This risk category includes participation risk, liquidity risk, macroeconomic risk, strategic risk, reputation risk, capital risk, compliance risk (including the risk from money laundering and terrorism financing) as well as market liquidity risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk according to a quantification method of Oesterreichische Nationalbank (the Austrian national bank). 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. For all other mentioned risk types, the required economic capital is quantified using simplified valuation models.

The risk-bearing capability 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 Group-wide strategic risk management, capital management and planning processes of BAWAG Holding Group.

The link between the stress test program 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 actions for the risk appetite or business strategy, where necessary.

55 | Credit risk

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

The operative credit risk divisions are specifically set up to ensure functional risk management expertise for both the Commercial and Institutional and the Retail and Small Business customers. The Strategic Risk division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In Retail and Small Business, the creditworthiness of private and small business customers is assessed by automated scorecards. The scoring is based on statistical models which 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 expected 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 the Retail and Small Business segment. 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 unique to each customer business segment. The rating methods that have been developed are based on a broad spectrum of quantitative and qualitative factors. Specific risk categories are assigned to each customer using a uniform master scale and represent an individually estimated probability of default.

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

BAWAG Holding, a group that applies the Internal Rating-Based (IRB) approach, sets high standards with regards to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are monitored and validated on a regular basis. Due to the centralized structure and coordination of the Group, new risk regulations or changing market situations are considered in a timely manner within the risk management strategies. The following sections provide an overview of the portfolio quality in the Retail Banking and Small Business segment (shown by days past due and loan to value ratios) and in the Corporate Lending segment (shown by the proportion of investment and non-investment grade).

Business segment development in 2015

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

Retail Banking and Small Business experienced growth in core consumer loan and mortgage products. Significant efforts have been made to enhance overall underwriting standards drawing on the expansive customer database. In terms of consumer loans, the focus is on automated underwriting models that are continuously enhanced within the core banking system. As for mortgages, the focus has been on strong collateral coverage. The Group's new mortgage originations have an average LTV of less than 80% and an overall portfolio LTV of 65%. The social housing portfolio remained stable year-over-year with limited new volume growth but characterized by an overall low LTV on the portfolio of 49%. Small business loans continue to be monitored proactively to ensure the possible identification of weakening credits, and if required, countermeasures are initiated.

As already mentioned, BAWAG Holding Group follows the strategy of focusing on the Austrian retail market and growing its profitable, low-risk international business. As part of this strategy, BAWAG Holding Group completed an acquisition of high-quality UK retail mortgages characterized by low LTVs (average: <57%) and a low NPL ratio of 2%.

Furthermore, BAWAG Holding Group acquired the leasing assets of VB-Leasing during 2015, which are already fully integrated in the Group-wide processes.

For both acquisitions, comprehensive internal and external reviews as well as detailed due diligence were performed.

Corporate Lending and Investments was characterized by proactive risk management and disciplined growth in stable Western European countries and North America while maintaining a comprehensive risk management approach, conservative lending criteria to ensure an adequate risk profile and a focus on risk-adjusted returns. Non-core exposure (e.g. CEE assets) and client relationships with insufficient risk/return metrics are consistently reviewed. The Austrian Corporate business is focused on developing sustainable client relationships by offering standardized products and services. The international business is characterized by corporate, commercial real estate and portfolio funding.

This year, the Group continued its strategy to fully exit from CEE markets. Overall, the CEE loan portfolio was further reduced by EUR 40 million (a reduction of 19%) with immaterial losses. The current CEE loan portfolio is EUR 172 million (excluding provisions) with NPLs below EUR 10 million (NPL coverage ratio 100%). The goal is to fully exit CEE loan assets.

In BAWAG Holding Group's Treasury Services and Markets division, the bond portfolio was rebalanced to shift investments into stable economies with a focus on high-quality bonds (e.g. covered and uncovered bank bonds as well as sovereign investments). The portfolio consists primarily of investments in Europe and the United States. The portfolio is comprised of 98% investment grade-rated bonds (100% investment grade issuer rating), of which 75% are rated in the single "A" category or higher.

The Corporate Center is comprised primarily of the Group's liquidity reserve and positive market values from derivatives and non-core participations. All central functions and Group Asset-Liability Management (ALM) activities are part of the Corporate Center.

Credit risk and bonds by business segment

	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total portfolio[1]	
in EUR million	**31.12. 2015**	**31.12. 2014**	**31.12. 2015**	**31.12. 2014**	**31.12. 2015**	**31.12. 2014**	**31.12. 2015**	**31.12. 2014**	**31.12. 2015**	**31.12. 2014**
Book value	12,665	9,308	11,982	12,352	0	0	1,935	1,816	26,582	23,476
Bonds	0	7	1,172	1,465	4,526	5,755	365	818	6,063	8,045
Off-balance business	1,839	1,938	1,332	1,562	381	1,239	386	62	3,937	4,801
Total	**14,504**	**11,253**	**14,486**	**15,379**	**4,907**	**6,994**	**2,686**	**2,696**	**36,582**	**36,322**
thereof collateralized[2]	9,117	6,372	3,883	4,348	182	232	86	150	13,268	11,102
thereof NPL[3] (incl. LLP, gross view)	248	305	85	153	0	0	256	257	588	715

1) As explained in Note 32, the held for sale position (BAWAG Malta Bank Limited) is not included. This applies to all tables in the Risk Report.
2) Economic collateral comprises residential and commercial real estate, guarantees, life insurances, etc.
3) Starting from June 2015, a revised definition for non-performing loans is applied. Loans are not included in NPLs if no economic loss is expected.

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

					31.12.2015
	Note 16	Notes 12, 13, 14[1]	Risk view		Segment Report
in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)	Total loans & bonds	Other assets	Total assets
Retail Banking and Small Business	12,665	0	12,665	157	12,822
Corporate Lending and Investments	12,631	522	13,154	35	13,188
Treasury Services and Markets	171	4,355	4,526	0	4,526
Corporate Center	1,928	371	2,299	2,679	4,978
Reconciliation	0	0	0	193	193
Total	**27,396**	**5,249**	**32,645**	**3,063**	**35,708**

					31.12.2014
	Note 16	Notes 12, 13, 14[1]	Risk view		Segment Report
in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)	Total loans & bonds	Other assets	Total assets
Retail Banking and Small Business	9,308	7	9,315	264	9,579
Corporate Lending and Investments	13,115	702	13,817	68	13,885
Treasury Services and Markets	959	4,797	5,755	0	5,755
Corporate Center	1,898	736	2,634	2,798	5,432
Reconciliation	0	0	0	203	203
Total	**25,280**	**6,242**	**31,522**	**3,332**	**34,854**

1) Shares and other variable rate securities (2015: EUR 5 million, 2014: EUR 7 million) are not included.

Geographical distribution of the loan and bond portfolio

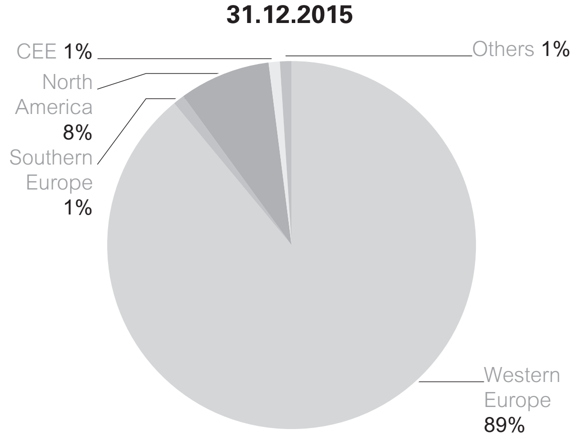
The geographic distribution of the loan portfolio is in line with the Group's strategy to be in stable geographies and currencies. 89% of the portfolio is located in Western Europe, 8% in North America[1] and less than 1% in CEE.

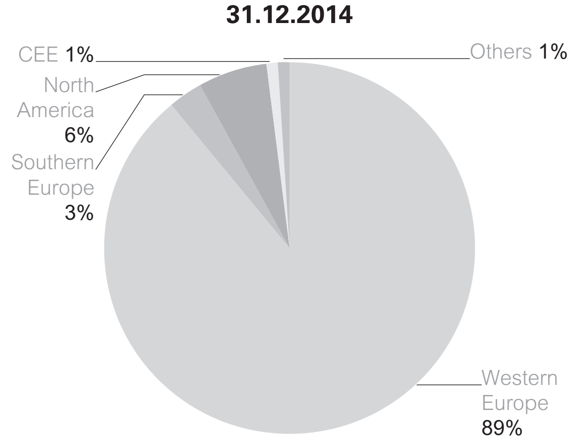
The geographic distribution of the bond portfolio is 66% in Western Europe, 14% in Southern Europe, 14% in North America[2] and 2% in CEE.

1) These regions include Great Britain with 14% (2014: 4%), the United States with 8% (2014: 6%), Germany with 4% (2014: 6%) and France with 1% (2014: 3%).

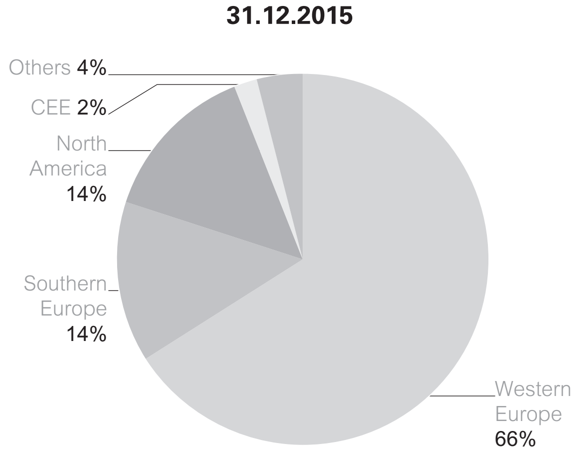
2) These regions include the United States with 14% (2014: 12%), Great Britain with 13% (2014: 12%), France with 8% (2014: 7%) and Germany with 5% (2014: 4%).

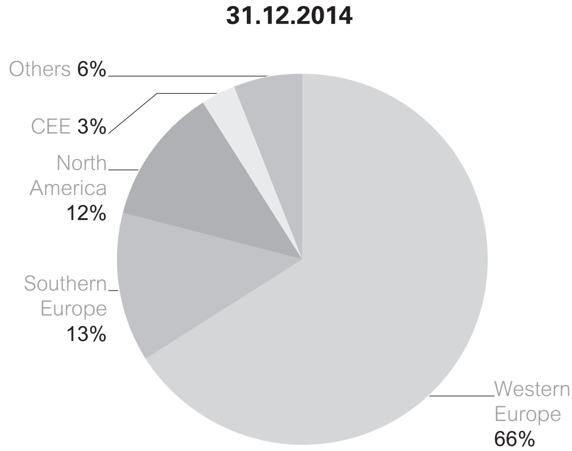
Geographical distribution of loans





Geographical distribution of bonds





Geographical distribution of the loan and bond portfolio – Portugal and Greece (peripheral Europe)

The Group's exposure in other countries of peripheral Europe contains no substantial risks. The Group has not had any exposure to Greece since 2012. The exposure in Portugal slightly increased compared to last year due to select investments with investment grade rating and high levels of collateral.

	Book value		Banks		Non-banks		Sovereigns	
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Portugal	32	24	24	24	8	–	–	–
Greece	–	–	–	–	–	–	–	–
Total	**32**	**24**	**24**	**24**	**8**	**–**	**–**	**–**

Credit portfolio and bonds by currencies

Consistent with the Group's overall positioning, the majority of financing is denominated in EUR. The following table captures the currency distribution of the credit portfolio and bond book of the Group.

	Book value		in%	
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014
EUR	24,204	25,818	74.1%	81.9%
CHF	2,109	2,286	6.5%	7.3%
USD	2,473	2,240	7.6%	7.1%
GBP	3,775	1,058	11.6%	3.4%
Others	86	120	0.3%	0.4%
Total	**32,647**	**31,522**	**100.0%**	**100.0%**

Credit quality overview: Loans, provisions, delinquencies and collaterals

The following table captures the days past due, NPL ratio and provisioning of the loan portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provision and collateral coverage across the portfolios. Approximately 78% of the total portfolio can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value[1]		**in%**	
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Loans and receivables (net)	27,396	25,280	99.3%	99.0%
Individual provisions	235	278	0.9%	1.1%
Loans and receivables (gross)	27,631	25,558	100.2%	100.1%
IBNR	46	31	0.2%	0.1%
Total	**27,585**	**25,527**	**100.0%**	**100.0%**
thereof performing	26,997	24,812	97.9%	97.2%
thereof non-performing	588	715	2.1%	2.8%
NPL LLP coverage ratio	–	–	34.2%	38.8%
NPL coverage ratio (collateral + LLP)	–	–	59.3%	62.6%
Additional information:				
Total unprovisioned outstandings past due	335	267	1.2%	1.0%
1–30 days	236	151	0.9%	0.6%
31–60 days	13	29	0.0%	0.1%
61–90 days	8	5	0.0%	0.0%
91–180 days	5	10	0.0%	0.0%
More than 180 days	73	72	0.3%	0.3%

1) Bonds are not included since the bond portfolio does not show any days past due or any signs of non-performance.

The following table shows the days past due and the NPL ratio for the segments Retail Banking and Small Business as well as Corporate Lending and Investments.

	Retail Banking and Small Business		**Corporate Lending and Investments**	
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Total	**12,665**	**9,315**	**13,154**	**13,817**
1–30 days	0.3%	0.4%	1.0%	0.8%
31–60 days	0.1%	0.1%	0.0%	0.1%
61–90 days	0.0%	0.1%	0.0%	0.0%
NPL ratio[1]	**1.9%**	**3.2%**	**0.7%**	**1.2%**
NPL LLP coverage ratio	47.9%	55.2%	46.0%	44.2%

1) The NPL ratio reflects a gross perspective.

The following table shows the distribution by ratings for the portfolio which is neither overdue nor impaired. The low-risk profile is stable and shows a positive trend toward investment grade ratings.

	Total portfolio		**Retail Banking and Small Business**		**Corporate Lending and Investments**	
in%	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Rating class 1	15.4%	16.1%	0.7%	0.7%	22.5%	22.5%
Rating class 2	6.4%	6.6%	1.6%	2.3%	9.9%	9.1%
Rating class 3	13.3%	11.5%	20.7%	18.4%	7.1%	7.0%
Rating class 4	40.5%	39.4%	39.7%	37.0%	46.5%	44.4%
Rating class 5	20.2%	21.0%	30.1%	31.4%	12.8%	15.0%
Rating class 6	2.9%	3.7%	5.2%	7.3%	0.9%	1.4%
Rating class 7	1.4%	1.7%	2.1%	2.9%	0.3%	0.6%

Collateral

The following table contains the split of collateral by categories. It shows a strong focus on real estate. Repayment vehicles only comprise a small part of the portfolio.

	Total portfolio		Retail Banking and Small Business		Corporate Lending and Investments	
in%	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Real estate	78.4%	73.9%	93.4%	94.5%	48.1%	45.0%
thereof residential	80.0%	75.9%	96.0%	94.1%	10.9%	12.1%
thereof commercial	20.0%	24.1%	4.0%	5.9%	89.1%	87.9%
Guarantees	16.8%	22.1%	0.5%	0.6%	50.1%	53.3%
Other collateral	3.5%	2.1%	4.7%	2.8%	0.9%	0.2%
Financial collateral	1.2%	1.9%	1.4%	2.0%	0.8%	1.6%
thereof repayment vehicles[1)]	2.4%	2.8%	3.2%	4.1%	0.8%	0.8%

1) The position "thereof repayment vehicles" refers to the share of repayment vehicles among the total collateral.

The collateral of the segment Treasury Services and Markets consists of 100% guarantees. The collateral of the segment Corporate Center comprises 31% real estate and 67% guarantees while the share of real estate increased by 8% compared to previous year.

Impaired loans

Provisions are booked for loans for which the probability of full recovery is not fulfilled. 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[1)]. Loans are not included in NPLs if no economic loss is expected.

Manual impairment provision

In cases when exposures are restructured according to internal processes, which may include the extension of forbearance measures, an appropriate impairment test is performed. Derecognition is assessed after a detailed analysis on an individual basis and impairment provisions are formed manually.

Automatic impairment provision

Loan loss provisions are booked automatically by the core banking system in the case of unpaid balances. This occurs when limits are continuously exceeded on current accounts and/or when legal action is initiated.

General impairment provisions

A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on- and off-balance sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 31 December 2015, the IBNR portfolio provision amounted to EUR 50.7 million (comprised of EUR 45.7 million for financial assets and EUR 5.0 million for off-balance sheet items – e.g. contractual liabilities and guarantees), versus EUR 37.8 million in the prior year.

Non-performing loans (NPLs)

Exposures relating to all customers in default risk class 8[2)] are categorized as non-performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account. When a material exposure of a customer is greater than 90 days past due, a loan loss provision is allocated or a customer-specific default criterion applies. The customer is considered to be in default across all exposure-related products and is assigned to risk class 8.

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, the two further impairment provision types described in the Impaired Loans section lead to the immediate default of the customer. All exposure-bearing products of the customer who is defaulted are classified as non-performing loans.
2) Risk class 8 contains all customers that are classified as in default according to the CRR definition.

Forborne loans and forbearance measures

Measures of forbearance or refinancing 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, or refinancing, may be granted. In this respect, strictly temporary measures, i.e. a reduction or postponement of as well as transfer to terms of interest-only payments, are in place. In exceptional cases, temporary or permanent reduction of interest rates may be granted. Depending on customer segments, a split of loan agreements or refinancing facilities may be accepted as viable measures.

The description of different responsibilities for managing and monitoring forbearance measures is covered by detailed guidelines.

Measures of forbearance or refinancing are instruments to ultimately reduce the existing risk with respect to debt claims. However, forbearance measures are by no means used to avoid or postpone the recognition of impairment or disguise the level of credit risk resulting from forborne assets.

By implementing forbearance measures, the Group supports clients in maintaining financial stability. One of the positive effects of forbearance is to assist clients on their way back to a sustainable financial situation. If the supporting measure is not successful, exposures are recognized as non-performing and impaired according to regulatory and accounting standards. For clients or a group of clients where a loss was identified, a provision is booked following internal guidelines.

For reporting as well as internal risk management purposes, the Group implemented processes and methods according to regulatory standards[2)] in order to identify exposures for which forbearance or refinancing measures have been extended.

Collateral and valuation of residential and commercial real estate

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

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

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

Workout group

The workout group is responsible for the processing and administration of troubled and defaulted loan commitments. The primary objective is to minimize losses by providing restructuring expertise and maximizing repayments.

Early recognition of troubled assets

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

Retail Banking and Small Business

The Retail Banking and Small Business portfolio is comprised of 56% mortgages, 30% consumer loans, 9% social housing and 5% small business loans. The portfolio is characterized by strong collateral coverage in the secured products (65% LTV across the mortgage portfolio, 58% in small business loans and 49% across the social housing portfolio). New business volumes were originated primarily from consumer loans and mortgages. The core products have well-defined underwriting standards that focus on collateral coverage, overall customer indebtedness and assessing customers' ability to service the loan. Additionally, active portfolio management (i.e. delinquency reporting, trend analysis, regional concentration analysis, NPL remediation) is a key component to proactively manage the risk in this portfolio.

2) EBA/ITS/2013/03/rev1 issued on 24 July 2014.

Having well defined policies, procedures and analytical tools related to portfolio management are essential to managing risk in this retail, flow-oriented business. The credit risk is measured continuously by the following methods:

– Portfolio trends in terms of risk class distribution

– Portfolio trends in terms of overdue/late payments

– Portfolio trends for defaulted loan facilities

– Portfolio trends in terms of losses

– Scorecard performance: Approval rate and manual scoring for decision cancellations

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

Furthermore, the risk from new business is managed using clear and strict credit guidelines. Decisions at the point of sale are taken on the basis of automated scoring systems or, in certain cases, manual decisions by the Risk department. A key focus in this portfolio is on compliance with policies and ensuring high data quality. A central monitoring process ensures ongoing quality assurance.

Credit portfolio and bonds by products

	Book value		NPL ratio[1)]	NPL coverage ratio	LTV[2)]
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2015**	**31.12.2015**
Mortgage loans	7,113	4,417	1.5%	91.7%	64.7%
Consumer loans	3,812	2,979	2.6%	88.2%	n/a
Social housing loans	1,079	1,340	–	n/a	48.9%
Small business loans	661	579	5.6%	88.7%	58.1%
Total	**12,665**	**9,315**	**1.9%**	**89.9%**	**56.9%**

1) The NPL ratio reflects a gross perspective.
2) The LTV for the total unprovisioned outstandings past due is close to the LTVs shown above.

The NPL ratio of the Retail portfolio improved from 3.2% to 1.9% compared to the previous year. The NPL coverage ratio of 89.9% (2014: 92.0%) and the LTV of 56.9% (2014: 57.1%) convey the stable risk profile of this portfolio.

The mortgage portfolio is characterized by low LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average life of the mortgage portfolio is less than 20 years with a blended LTV below 65%. Mortgages comprise both EUR-, CHF- and GBP-denominated mortgages. The CHF-denominated mortgage portfolio stands at EUR 1.6 billion at year-end 2015. This is a portfolio that is proactively being managed down and/or converted to EUR-denominated loans. The volume in CHF-denominated mortgages is down by over CHF 1 billion since the discontinuation of the product in 2008 (reduction of 38%). Specific programs have been in place for the past few years that were established between the Risk and Market organizations to convert customers to EUR-denominated loans. The LTV of the CHF portfolio was 79% as of year-end 2015.

The consumer loan portfolio is comprised of unsecured one-stop and online loans, overdrafts and a mix of leasing assets (consumer auto, real estate and equipment leasing). The focus has been on developing robust risk scorecards and processes to support the growth of this core segment. The risk profile of the portfolio is characterized by a weighted average life of slightly above seven years. All the delinquency trends remained stable.

The overall social housing portfolio shows LTVs of 49%. Small business loans are proactively monitored to ensure the potential identification of weakening credits and if required, countermeasures are initiated.

The UK mortgage portfolio, which was acquired in the fourth quarter, consists of about 37,600 contracts with an average balance of approximately EUR equivalent of 65 thousand. The average duration is slightly above 15 years. The portfolio displays low default rates (NPL ratio of 2%) and low LTVs (<57%).

The overall NPL and coverage ratios reflect a stable and low-risk portfolio. Significant resources have been allocated and investments made over the past few years to address legacy NPL portfolios (primarily sold in the past few years), to enhance early and late stage collection processes/capabilities and to develop a proactive approach of dealing with NPLs both from an Operations and Risk standpoint.

Forbearance by products

	Consumer loans		Mortgage loans		Small business loans		Social housing loans	
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Austria	**85**	**53**	**71**	**58**	**21**	**20**	**–**	**6**
thereof non-performing	12	11	18	24	6	9	–	3
Impairments	6	4	5	6	1	2	–	1
Collateral	6	9	58	46	14	14	–	3

By analyzing the type of the identified forbearance measures, the most common measure was recognized in payment holiday (approximately 78% of the forborne contracts), followed by workout and refinancing (approximately 14%) and extensions of the repayment schedule (approximately 7%). Interest income recognized in respect of forborne assets amounts to EUR 6.0 million. Actual risk costs for forborne exposures (impairments and derecognition in 2015) amount to EUR 3.7 million. Approximately 91% of the forborne volume is up to 30 days past due, 2% between 30 and 90 and 7% more than 90 days past due as of 31 December 2015. The forborne assets are primarily located in Austria (EUR 177.1 million) and the United Kingdom (EUR 13.1 million). In 2015, assets totaling EUR 103.6 million were recognized as forborne, whereas EUR 64.0 million were derecognized.

Days past due – credit quality

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure full repayment of loans.

The retail portfolio is 99.3% current (i.e. no days past due). In comparison to 2014, this is an improvement of 0.6 pts. Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results reflect the strong credit quality of the portfolio.

	Consumer loans		Mortgage loans		Small business loans		Social housing loans	
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Total	**3,812**	**2,979**	**7,113**	**4,417**	**661**	**579**	**1,079**	**1,340**
1–30 days	1.9%	0.7%	0.1%	0.2%	1.4%	1.0%	0.0%	0.0%
31–60 days	0.5%	0.2%	0.1%	0.1%	0.4%	0.2%	0.0%	0.0%
61–90 days	0.3%	0.1%	0.0%	0.0%	0.3%	0.2%	0.0%	0.0%
NPL ratio[1)]	2.6%	4.6%	1.5%	2.4%	5.6%	7.7%	0.0%	0.2%
NPL LLP coverage ratio	76.9%	81.6%	22.2%	30.3%	46.6%	43.5%	n/a	28.7%

1) The NPL ratio reflects a gross perspective.

Retail assets - Regional distribution

	Book value		in %		NPL ratio[1)]	NPL coverage ratio
in EUR million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2015
Vienna	2,783	2,663	22.0%	28.6%	2.7%	90.3%
Lower Austria	2,024	1,852	16.0%	19.9%	1.9%	91.2%
Styria	1,951	1,717	15.4%	18.4%	1.3%	90.1%
Tyrol/Vorarlberg	862	790	6.8%	8.5%	2.8%	91.1%
Upper Austria	847	725	6.7%	7.8%	1.8%	90.9%
Carinthia	765	704	6.0%	7.6%	1.8%	91.4%
Salzburg	513	446	4.0%	4.8%	1.7%	89.0%
Burgenland	439	418	3.5%	4.5%	1.7%	91.1%
Portfolio Austria	**10,184**	**9,315**	**80.4%**	**100.0%**	**2.0%**	**90.6%**
United Kingdom	2,481	–	19.6%	–	1.4%	84.9%
Total portfolio	**12,665**	**9,315**	**100.0%**	**100.0%**	**1.9%**	**89.9%**

1) The NPL ratio reflects a gross perspective.

The portfolio is regionally diverse across Austria, with two thirds of the exposure distributed across the stronger economic regions of Vienna, Styria and Lower Austria. The UK mortgage portfolio accounts for one fifth of the Retail portfolio.

Corporate Lending and Investments

	Book value		NPL ratio[1]	NPL coverage ratio	Investment grade
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2015**	**31.12.2015**
Austrian Corporate Business	7,056	7,791	1.2%	97.6%	85.4%
International Business	6,098	6,026	–	n/a	87.3%
IB Corporates	3,387	3,869	–	n/a	80.2%
IB Real Estate	2,711	2,157	–	n/a	96.2%
Total	**13,154**	**13,817**	**0.7%**	**97.6%**	**86.3%**

1) The NPL ratio reflects a gross perspective.

The Corporate Lending and Investments business is split between domestic Austrian Corporate and Public Sector assets (54%) and the International Business assets (46%) and was characterized by proactive risk management, disciplined growth in stable Western economies, continued exit of non-core CEE assets and maintaining a disciplined approach to risk-adjusted pricing. The overall portfolio is comprised of 86.3% investment grade between both Austrian and international assets (2014: 82.2%). The total NPL ratio reflects the very high credit quality of the business and was further reduced by 0.5 percentage points from 1.2% to 0.7% due to active portfolio management. Among the NPL volume 97.6% are covered (2014: 81.1%).

All material credit decisions are taken within a specific credit committee that meets weekly and is comprised of all Managing Board members. Individual credit applications are thoroughly reviewed, discussed and voted on. The Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international experience. For loan applications below a certain threshold, risk managers are granted authority to approve credits outside of the credit committee.

Corporate exposure in the international business is characterized predominantly by a moderate (net) debt/EBITDA ratio of <4x and a very good risk/return profile. The international real estate finance portfolio has an average LTV of approximately 65% and is very well diversified in terms of regions and asset classes.

Currency distribution of the credit and bond portfolio

	Book value		in %	
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
EUR	9,209	10,330	70.0%	74.8%
USD	2,286	1,870	17.4%	13.5%
GBP	1,272	1,056	9.7%	7.6%
CHF	361	519	2.7%	3.8%
Others	26	42	0.2%	0.3%
Total	**13,154**	**13,817**	**100.0%**	**100.0%**

Forbearance

The most common measures relate to payment holiday (approximately 76% of forborne contracts) followed by restructuring and extensions of the repayment schedule (approximately 24% of the forborne contracts). Interest income recognized in respect of forborne assets amounts to EUR 3.2 million. Actual risk costs for forborne exposures (impairments and derecognition in 2015) amount to EUR 6.7 million. 82.8% of the forborne volume is up to 30 days past due, 0.7% between 30 and 90 days past due and 17.2% more than 90 days past due as of 31 December 2015.

in EUR million	**31.12.2015**	**31.12.2014**
Forborne	157	184
thereof non-performing	52	77
Impairments	20	29
Collateral	93	91

These forborne assets are mainly split up among the industries Real Estate (EUR 68.6 million), Construction and Building Materials (EUR 41.2 million), Hotel, Gaming and Leisure (EUR 14.8 million), Utilities (EUR 8.6 million) and Commodity (EUR 6.0 million). Geographically, the forborne exposure is distributed among Austria (EUR 112.5 million), Croatia (EUR 22.1 million), Slovenia (EUR 12.2 million), the United Kingdom (EUR 6.0 million), Italy (EUR 2.4 million) and Germany (EUR 2.1 million). While assets totaling EUR 59.0 million are newly recognized as forborne as of 31 December 2015, more than EUR 85.5 million were de-recognized in 2015.

Particular risk concentrations in the credit portfolio

A major focus of risk management in the Corporate Lending and Investments segment is centered around managing concentration risk. Concentration risk arises from both large exposures in individual customer segments or large industry/country/foreign currency exposures.

The framework for the management of concentration risk is based on the requirements imposed by the senior management of the Group in line with the rules and recommendations of national and international regulators. Concentration risks are managed, limited and reported to the Managing Board as part of the overall monthly risk management reporting.

The principles and methodological framework for the measurement and monitoring of these credit risk concentrations are outlined in risk manuals and guidelines. Concentration risks at the level of individual transactions and products are managed in a sub-portfolio category. Country and sector limits are managed using a standard process in accordance with internal guidelines.

Concentration risk at the level of individual borrowers and groups of affiliated customers as well as for sectors, countries and currencies is quantified on the basis of allocated economic capital. Adapted risk-weighted assets form the methodological basis in accordance with IRB standards.

Corresponding limits and warning thresholds are specified for countries, sectors, currencies and groups of customers and form an integral part of the management of overall risk in the Group. All limits are monitored on an ongoing basis and in accordance with the estimated risk potential.

Risk concentrations by industry segmentation

	Book value		in %	
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Government	2,342	2,343	17.8%	17.0%
Portfolio Financing	1,769	1,691	13.4%	12.2%
Public Sector	1,733	1,871	13.2%	13.5%
Real Estate	1,521	1,348	11.6%	9.8%
Pharmaceuticals & Health Care	759	874	5.8%	6.3%
Services	692	531	5.3%	3.8%
Hotel, Gaming & Leisure	465	381	3.5%	2.8%
Retail – Non-food	462	356	3.5%	2.6%
Retail – Food	370	513	2.8%	3.7%
Telecommunication & Electronics	367	364	2.8%	2.6%
Automotive	351	406	2.7%	2.9%
Transport	318	304	2.4%	2.2%
Commodity	298	407	2.3%	2.9%
Investment Funds	275	384	2.1%	2.8%
Beverages, Food & Tobacco	239	337	1.8%	2.4%
Wood & Paper	172	203	1.3%	1.5%
Engineering	163	128	1.2%	0.9%
Social Housing	142	161	1.1%	1.2%
Construction & Building Materials	138	167	1.0%	1.2%
Chemicals	126	92	1.0%	0.7%
Financial Institutions	124	417	0.9%	3.0%
Media	94	188	0.7%	1.4%
Others	78	83	0.6%	0.6%
Utilities	70	186	0.5%	1.3%
Non-Governmental Organizations	47	51	0.4%	0.4%
Leasing Companies	39	31	0.3%	0.2%
Total	**13,154**	**13,817**	**100.0%**	**100.0%**

Treasury Services and Markets

	Book value		Investment grade	
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Banks	3,866	4,331	99.3%	99.0%
Sovereigns	660	814	100.0%	100.0%
CLOs	–	610	100.0%	100.0%
Total	**4,526**	**5,755**	**99.5%**	**99.2%**

Treasury Services and Markets acts as a service center for the Group's customers, subsidiaries and partners through market execution as well as selective investment activities.

The portfolio consists primarily of investments in Europe and the United States. The portfolio is comprised of 98% investment grade-rated bonds (100% investment grade issuer rating), of which 75% are rated in the single "A" category or higher. The portfolio of CLO investments was sold during the third quarter of 2015 and consequently the exposure was reduced to 0. Exposure to CEE bonds represented < 3%, with 84% rated in the single "A" category or higher. The Group has no direct exposure to HETA in its securities portfolio. The portfolio has no direct exposure to Russia, China, Hungary or South-Eastern Europe as of 31 December 2015.

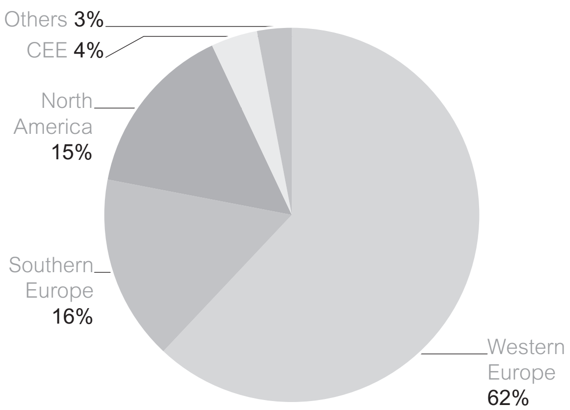
Currency distribution of the credit and securities portfolio

	Book value			in %
in EUR million	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
EUR	4,373	5,514	96.6%	95.8%
USD	153	217	3.4%	3.8%
Others	0	24	–	0.4%
Total	**4,526**	**5,755**	**100.0%**	**100.0%**

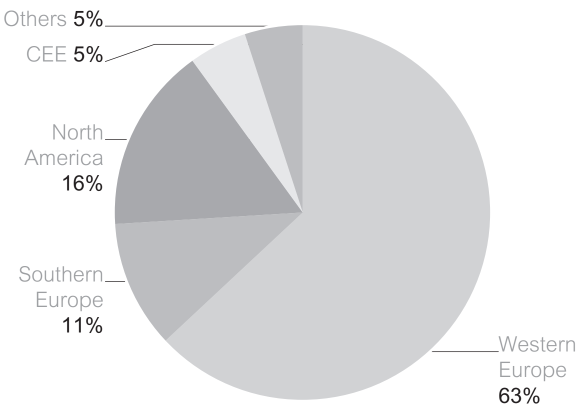
Geographical distribution of the securities portfolio[1)]

Geographical distribution of bonds

31.12.2015



31.12.2014



Corporate Center

The Corporate Center is comprised primarily of the Group's liquidity reserve, positive market values from derivatives, certain equity participations, and the Asset-Liability Management (ALM) function of the Group. The majority of the assets is related to the ALM activities, mainly consisting of the liquidity reserve and positive market values from derivatives, which are used for hedging purposes. Assets decreased slightly.

1) These regions include the United States with 15% (2014: 11%), Great Britain with 14% (2014: 13%), France with 7% (2014: 5%) and Germany with 3% (2014: 4%).

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential impairments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such.

Impairment tests are conducted every year to validate the values of the equity investments in the Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. cash flow, P&L and balance sheet) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the company based on the Group's shareholding is then compared with the carrying amount of the investment.

In contrast to the procedure described above, more simplified techniques are adopted for micro-participations and those amounts covered either by pro rata equity, by pro rata capitalized average earnings before taxes of the last three years or by other value indicators – e.g. net asset values for real estate companies.

The overall results of the impairment tests are reviewed and confirmed by the Participation Risk team.

56 | Market risk

Market risk is the risk of loss 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.

Particular emphasis is placed upon market risk identification, measurement, analysis and management performed by the Strategic Risk division for all market related risks in the Group. The applied market risk limits consist of value-at-risk, sensitivity, volume and worst-case limits and are approved by the Group's Managing Board.

Market risk in the trading book

The Group's strategy to discontinue proprietary trading activities resulted in a further reduction in derivative volume in the trading book in 2015. The increase in risk shown in the following table is entirely due to increased CHF volatility rather than trading activity.

Considering the above mentioned reduction in the trading book, the Group decided to discontinue the internal model and to adopt the standard method for regulatory capital calculation. This decision was based on the strategic direction to continuously reduce the trading book. The ECB approved this decision as of 1 September 2015. Regulatory capital requirements for specific risk in the trading book are still calculated using the regulatory standard method.

The Group will continue to employ the value-at-risk (VaR) approach for internal risk monitoring and steering. The VaR limits are further supplemented by sensitivity and worst-case limits.

The following table depicts the total trading book VaR based on a confidence interval of 99% and a holding period of one day.

VaR trading book

in EUR thousand	**31.12.2015**	**31.12.2014**
Yearly average VaR	(776)	(243)
Year-end VaR	(642)	(316)

Market risk in the banking book

The primary components of market risk for BAWAG Holding Group are interest rate risk, credit spread risk and liquidity risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury Services and Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the Group level as determined by the Controlling/ALM division. The Strategic Risk division reports to the SALCO on a daily basis for some areas as well as monthly at the Group level on limit utilization and the distribution of risk.

The target interest rate risk structure mandated by the SALCO is implemented by the Controlling/ALM and Treasury Services and Markets divisions. Interest rate derivatives are employed to this end in order to manage interest rate risk. BAWAG Holding Group uses interest rate derivatives:

– to implement the interest risk strategy within the requirements and limits defined by the SALCO,

– to manage the sensitivity of the valuation result and the revaluation reserve,

– and to hedge the economic risk position, thereby taking the accounting treatment into consideration.

BAWAG Holding Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to value interest rate risk hedges of the balance sheet:

– Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities

– Portfolio fair value hedge ("EU carve-out"): application to sub portfolios of sight deposits that are available for the long term after derivation of a bottom layer

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point. The following table depicts the Group's interest rate risk sensitivities as of
31 December 2015 on the basis of the PVBP concept:

Interest rate sensitivity

							31.12.2015
in EUR million	**<1Y**	**1Y–3Y**	**3Y–5Y**	**5Y–7Y**	**7Y–10Y**	**>10Y**	**Total**
EUR	(198)	(50)	(322)	(172)	(52)	(36)	(830)
USD	(15)	(8)	29	(3)	(1)	0	3
CHF	(17)	(12)	(6)	3	(73)	4	(101)
GBP	5	10	(8)	(1)	(3)	(13)	(8)
Other currencies	2	(1)	1	1	1	3	6
Total	**(222)**	**(60)**	**(307)**	**(172)**	**(128)**	**(42)**	**(930)**

							31.12.2014
in EUR million	**<1Y**	**1Y–3Y**	**3Y5–Y**	**5Y–7Y**	**7Y–10Y**	**>10Y**	**Total**
EUR	(74)	(145)	(161)	(217)	(36)	(4)	(637)
USD	(38)	(30)	(5)	12	(9)	6	(65)
CHF	10	0	(3)	(4)	(4)	(4)	(5)
GBP	0	(2)	0	0	0	0	(3)
Other currencies	2	(1)	0	4	(3)	(7)	(6)
Total	**(101)**	**(178)**	**(170)**	**(205)**	**(52)**	**(10)**	**(716)**

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to minus EUR 191 thousand on 31 December 2015 (31 December 2014: minus EUR 266 thousand). For the available-for-sale financial assets, the sensitivity amounted to minus EUR 461 thousand (31 December 2014: minus EUR 662 thousand).

Furthermore, a value-at-risk calculation for the Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by the Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The following table shows the total credit spread sensitivity of the Group along with the breakout by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income:

Credit spread sensitivity

in EUR thousand	31.12.2015	31.12.2014
Total portfolio	(1,965)	(2,418)
Financial assets designated at fair value through profit or loss	251	302
Available-for-sale financial assets	(815)	(1,223)
Held-to-maturity assets & Loans and receivables	(1,401)	(1,497)

The risk indicators "value-at-risk" and "expected shortfall" are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for the Group as a whole in the ICAAP and is part of the Group-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by backtesting.

FX risk in the banking book

The extent of open foreign exchange positions in the Group's banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in EUR thousand	USD		GBP		JPY		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	(842)	842	378	(378)	820	(820)	(471)	471

Concentration risk

All essential risk factors are incorporated within VaR-models/scenario analyses and stress test calculations which are applied to all trading and bank book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatility) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also divided, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

57 | 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 Manual for Liquidity Risks specifies how liquidity risks are to be handled and includes a contingency liquidity plan.

The Asset-Liability Management (ALM) department is responsible for central liquidity management of the Group.

Liquidity management

The liquidity management is performed under a Group perspective.

For managing the short-term liquidity, a 30-day liquidity forecast is prepared daily for ongoing liquidity position management by Treasury Services and Markets. This allows for close tracking and the management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared every month and reported in the SALCO (Strategic Asset Liability Committee). It also takes scenario calculations for planned measures and various assumptions about customer behavior into account. The regulatory and internal liquidity indicators are also projected. The FACE (Free Available Cash Equivalent), a benchmark for the short-term liquidity potential, represents the most important ratio for liquidity purposes.

Liquidity stress tests are used to determine the outflow of liquidity that may be incurred under different stress scenarios (systemic stress, idiosyncratic stress, combined stress) in order to calibrate the liquidity buffer.

Long-term liquidity management is conducted for the coming three years as part of the annual planning process. Strategic measures are also analyzed during the course of the year.

Major decisions regarding liquidity risk are made in the SALCO, in which all board members are represented. The limits applied for liquidity steering are supervised by the Strategic Risk division.

Liquidity buffer

Asset-Liability Management ensures that the Group holds a well-diversified portfolio of high-quality, liquid assets and that the liquidity buffer, whose volume is derived from stress testing, fulfills all regulatory requirements and is sufficient for future refinancing purposes. Additionally, Asset-Liability Management centrally manages the liquidity buffer required for LCR purposes in designated portfolios. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the composition of the liquidity buffer on the basis of the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in EUR million	**31.12.2015**	**31.12.2014**
Money market	1,182	750
Bonds	3,739	4,699
ECB pledged credit claims	1,344	1,929
Short term liquidity buffer	**6,265**	**7,378**
Bonds	689	1,960
Credit claims available for covered bonds	140	828
Medium-term liquidity buffer	**829**	**2,788**
Total	**7,094**	**10,166**

Maturity analysis of contractual undiscounted cash flows of financial assets and liabilities

						31.12.2015
in EUR million	**Gross nominal inflow/outflow**	**Less than 1 month**	**1–3 months**	**3 months to 1 year**	**1–5 years**	**More than 5 years**
Assets						
Loans to customers	31,510	1,889	637	2,031	10,881	16,072
Bonds	6,314	108	243	744	3,244	1,975
Money market assets	1,063	1,035	10	18	0	0
Subtotal	**38,887**	**3,032**	**890**	**2,793**	**14,125**	**18,047**
Liabilities						
Deposits from banks	(4,490)	(1,118)	(1,685)	(69)	(1,340)	(278)
Deposits from customers	(21,519)	(18,799)	(289)	(964)	(1,352)	(116)
Debt securities issued	(5,019)	(17)	(32)	(329)	(2,364)	(2,277)
Subtotal	**(31,028)**	**(19,934)**	**(2,006)**	**(1,362)**	**(5,056)**	**(2,671)**
Derivatives						
Inflow	8,363	1,282	1,392	3,473	1,649	568
Outflow	(8,705)	(1,293)	(1,372)	(3,577)	(1,816)	(646)
Other off-balance-sheet financial obligations	(1,620)	(1,620)	0	0	0	0
Total	**5,897**	**(18,534)**	**(1,096)**	**1,326**	**8,902**	**15,298**

in EUR million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
						31.12.2014
Assets						
Loans to customers	27,075	2,254	463	1,751	9,821	12,786
Bonds	8,549	90	244	752	5,296	2,167
Money market assets	862	783	4	75	0	0
Subtotal	**36,486**	**3,126**	**712**	**2,578**	**15,117**	**14,953**
Liabilities						
Deposits from banks	(2,739)	(757)	(79)	(164)	(1,343)	(396)
Deposits from customers	(21,247)	(17,306)	(681)	(1,741)	(1,372)	(147)
Debt securities issued	(6,649)	(62)	(71)	(1,826)	(1,998)	(2,692)
Subtotal	**(30,635)**	**(18,125)**	**(830)**	**(3,731)**	**(4,714)**	**(3,235)**
Derivatives						
Inflow	7,162	1,969	849	816	2,738	790
Outflow	(7,409)	(1,994)	(868)	(860)	(2,857)	(830)
Other off-balance-sheet financial obligations	(1,841)	(1,841)	0	0	0	0
Total	**3,763**	**(16,864)**	**(138)**	**(1,198)**	**10,284**	**11,678**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial assets and liabilities. They are assigned to time buckets on the basis of their contractual maturities. All daily callable loans and deposits were placed into the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

The liquidity management already takes the new regulatory liquidity ratios into account. Due to our robust liquidity position, the Liquidity Coverage Ratio of 137% significantly exceeds the regulatory requirements.

The year 2015 was characterized by a solid liquidity situation as well as stable core refinancing sources and a balanced liability structure. The funding strategy is still focused on retail deposits. This reduces the dependency on international capital markets and interbank funding, which is also reflected in a wholesale funding ratio[1)] of less than 30%. The strong liquidity situation of the Group was used to redeem maturing own issues for deleveraging non-core liabilities.

Nevertheless, an international covered bond of EUR 500 million was successfully issued for the first time in three years in 2015, underscoring the capital market access of the Group.

58 | Operational risk

The Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 Regulation (EU) No 575/2013 to assess operational risk, resulting in RWAs of EUR 1.6 billion in 2015. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own fund requirements under the Standardized Approach. The OpRisk RWAs are assigned to the Corporate Center segment.

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.

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

In addition to recipient-oriented reporting, the risk organization applies a risk control self-assessment (RCSA) concept in managing operational risk. All business units assess their material operational risks and the effectiveness of their control measures on a yearly basis applying a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of specific remediation measures is required.

A clear organizational structure and authorization levels form the basis of OpRisk limits. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are designed to allow the Group to manage OpRisk.

1) Wholesale funding ratio = 1 – (customer liabilities/(financial liabilities – liabilities held for trading)).

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

59 | Fiduciary assets

in EUR million	31.12.2015	31.12.2014
Fiduciary assets	**126**	**189**
Receivables from customers	126	189
Fiduciary liabilities	**126**	**189**
Deposits from banks	19	25
Deposits from customers	107	164

60 | Breakdown of securities pursuant to the Federal Banking Act (BWG)

The following table breaks securities down in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2015 (IFRS figures):

		Listed			
in EUR million	Not listed	Total	Loans and receivables	Other measurements	BAWAG Holding Group Total 2015
Bonds and other fixed income securities	907	2,871	231	2,640	**3,778**
Shares and other variable income securities	3	3	–	3	**6**
Shares in associates and other shares	62	–	–	–	**62**
Shares in non-consolidated subsidiaries	22	–	–	–	**22**
Total securities	**994**	**2,874**	**231**	**2,643**	**3,868**

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG was EUR 74 million (2014: EUR 156 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG was EUR 4 million (2014: EUR 15 million).

Liabilities and subordinated capital amounting to a repayment amount of EUR 288 million will come due under the corresponding contracts in 2016.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are all bullet bonds. Supplementary and subordinated capital bonds are subscribed by private Austrian investors and sold to major domestic and international investors.

As of 31 December 2015, the average weighted nominal interest rate on supplementary and subordinated capital bonds was 6.57% (2014: 5.84%), and the average remaining term to maturity was 7.1 years (2014: 5.3 years).

61 | Collateral received

Different types of collateral have been pledged to the Group as part of its business transactions. To reduce credit risk for derivative instruments, the Group received consideration (collateral deals) in the amount of EUR 486 million (2014: EUR 580 million) and paid consideration (collateral deals) in the amount of EUR 314 million (2014: EUR 320 million).

in EUR million	**Collateralized on-balance-sheet claims**	**Collateralized off-balance-sheet claims**	**Total**
Financial collateral			
Stocks	20	1	**21**
Cash deposits	55	1,098	**1,153**
Bonds	13	1	**14**
Real estate			
Commercial properties	540	8	**548**
Private properties	7,640	57	**7,697**
Personal collateral			
Guarantees	1,731	27	**1,758**
Credit derivatives	–	–	**–**
Other forms of collateral			
Assignation of claims	3	–	**3**
Life insurance policies	219	4	**223**
Collateral received	**10,221**	**1,196**	**11,417**

62 | Hybrid capital

After redeeming the last hybrid capital issue in June 2015, the consolidated financial statements recognize hybrid capital in the amount of EUR 0 million (2014: EUR 83 million). The entirety of this amount was reported on the IFRS Statement of Financial Position in the line item Supplementary capital and subordinated debt capital in 2014.

63 | Human resources

Headcount – salaried employees

	31.12.2015	**31.12.2014**
Number of employees on reporting date	3,611	3,804
Average number of employees	3,755	4,122

Full-time equivalents – salaried employees

	31.12.2015	**31.12.2014**
Number of employees on reporting date	3,072	3,287
Average number of employees	3,220	3,593
Active employees[1)]	2,625	2,838

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

64 | Branches

in EUR million	31.12.2015	31.12.2014
Name of branch	BAWAG P.S.K. International	BAWAG P.S.K. International
Business segment	International Business	International Business
Country of domicile	Great Britain	Great Britain
Net interest income	0.0	0.0
Operating income[1)]	17.8	1.1
Number of full-time employees	12	4
Profit before tax[1)]	8.8	(0.5)
Income tax	1.8	0.0
Government aid received	0	0

1) BAWAG P.S.K. International: income is based on internal funds transfer pricing.

65 | Trading book

BAWAG Holding Group maintains a securities trading book, which breaks down by volume as follows:

in EUR million	31.12.2015	31.12.2014
Derivative financial instruments in the trading book (nominal value)	11,548	15,406
Money market transactions (book values, recognized under receivables from credit institutions and payables to credit institutions)	84	131
Trading book by volume	**11,632**	**15,538**

66 | Geographical regions

Gross income of BAWAG Holding relates to the following geographical regions, with the split being based on the domicile of the customer. Income from derivative and trading transactions is presented as domestic due to the fact that trading is centralized in Vienna and no material country risks arise as most transactions are collateralized.

in EUR million	Domestic	Western Europe	Central and Eastern Europe	North America	Rest of the world	Total
Interest and similar income	625.7	317.1	11.5	86.3	10.6	**1,051.3**
Income from securities and equity interests	10.2	0.0	0.0	0.0	0.0	**10.2**
Fee and commission income	289.1	1.5	0.6	0.3	0.8	**292.3**
Gains and losses on financial instruments	62.9	2.0	0.0	0.0	0.0	**64.8**
Other operating income	16.5	3.5	0.0	0.0	0.0	**20.0**

67 | Other disclosures required by BWG and Austrian GAAP (UGB) including remuneration policy

The Statement of Financial Position entry for Land and buildings shows property with a carrying amount of EUR 3 million (2014: EUR 8 million).

Obligations arising from the use of tangible non-current assets not recognized on the Statement of Financial Position were expected to come to EUR 23 million for the period subsequent to 2015 (2014: EUR 24 million); the expected amount in the five years following the year under review was EUR 88 million (2014: EUR 93 million).

The Statement of Financial Position as of 31 December 2015 contains accrued interest on supplementary capital bonds in the amount of EUR 1 million (2014: EUR 3 million).

Expenses for subordinated liabilities amounted to EUR 48 million (2014: EUR 58 million).

Expenses for BAWAG Holding's group auditor in the current financial year amount to EUR 2.3 million and comprise audit fees in the amount of EUR 1.6 million, tax advisory fees of EUR 0.2 million as well as other advisory fees in the amount of EUR 0.5 million.

As of 31 December 2015, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 1.10% (2014: 0.91%).

The Company is a member of the consolidated group headed by Promontoria Sacher Holding N.V., which is situated in Baarn, The Netherlands. Pursuant to section 30 paragraph 1 and 2 BWG Promontoria Sacher Holding N.V. is the superordinate financial holding company of the group of credit institutions. In accordance with section 30 paragraph 5 and 6 BWG, BAWAG P.S.K. as the superordinate credit institution is responsible for the compliance with the provisions of the Austrian Banking Act which are applicable to the group of credit institutions and prepares the consolidated financial statements of Promontoria Sacher Holding N.V. The consolidated financial statements of Promontoria Sacher Holding N.V. are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG and are available at BAWAG P.S.K.'s headquarters in Vienna.

BAWAG Holding uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG P.S.K. at: www.bawagpsk.com/FinancialResults.

Remuneration Policy

BAWAG P.S.K. AG has a Remuneration Committee, which is a Supervisory Board committee. The Remuneration Committee specifies the remuneration policy, monitors its implementation and submits regular reports on its activities to the full Supervisory Board of BAWAG P.S.K. AG. The committee consists of the chairman of the Supervisory Board, who heads it, and five further Supervisory Board members, including two members of the Works Council.

Remuneration Committee of BAWAG P.S.K. AG has adopted a remuneration guideline that applies to the members of the Managing Board and the employees of the Group and that takes into account the principles of the EU's CRD IV Directive, the CEBS guideline and the associated provision of the Austrian Banking Act.

For employees whose activities have a material influence on the Bank's risk profile, this guideline stipulates a remuneration policy that does not impede effective risk management. It is designed to align the objectives of the employees with the long-term interests of the Bank and to ensure an appropriate balance between fixed and variable remuneration components. It also takes into account the legal regulations stipulating that the policy must be applied to the management and to risk purchasers, to employees with controlling duties as well as to employees who are in the same wage group as the management and the risk purchasers and whose activities have a material influence on the risk profile of the Bank.

The annual budget for variable remuneration components is based on the degree to which the Bank achieves its earnings targets.

Approval for the awarding of bonuses to BAWAG P.S.K. Managing Board members and employees is proposed by the Managing Board and granted by the Committee for Management Board Matters, taking into account the market conditions and development, the appropriateness of bonus payments, the development of risk and the strengthening of the Bank's equity base.

The rules were implemented in the remuneration guideline as follows:

- To ensure risk adequacy, the variable remuneration must not provide an incentive to enter into inappropriate risks.
- To ensure sustainability, success is determined based on a longer-term observation period. For this reason, parts of the bonus are distributed over a period of up to five years. The payment of the retained portions is subject to strict Bank success criteria.
- The appropriateness and market adequacy of remuneration is ensured, applying a balanced relationship between fixed and variable components.

The variable remuneration is determined on the basis of the individual's success (in quantitative and qualitative terms) as well as on the success of the respective organizational unit and the Bank.

For individual matters concerning the remuneration of Managing Board members, a Committee for Management Board Matters has been set up taking into account the framework of the Austrian Labor Constitution Act.

68 | Own funds of BAWAG P.S.K. AG (individual financial institution)

The following table depicts the composition of BAWAG P.S.K. AG's own funds applying transitional rules as of 31 December 2015 and 2014 according to CRR:

in EUR million	**31.12.2015**	**31.12.2014**
Share capital	250	250
Reserves including profit for the fiscal year 2015	1.905	1.875
Deduction of intangible assets	-88	-90
IRB risk provision shortfall	-49	-50
Common Equity Tier I	2.018	1.985
Supplementary and subordinated debt capital	**476**	**614**
Deduction participations	-15	-14
Excess IRB risk provisions	16	21
IRB risk provision shortfall	-21	-33
Tier II	456	588
Own funds	**2.474**	**2.573**

69 | Date of release for publication

The Group financial statements were approved by the Board of Managing Directors for submission to the Supervisory Board on 29 March 2016. The Supervisory Board is responsible for reviewing and acknowledges the Group financial statements.

70 | Events after the reporting date

BAWAG Malta

After having received all regulatory approvals, the closing of the sale of BAWAG Malta Bank Ltd. took place on 29 January 2016. The profit from the sale amounted to EUR 4.1 million.

Vienna, 29 March 2016

Byron Haynes
Managing Director

Corey Pinkston
Managing Director

Anas Abuzaakouk
Managing Director

Jeffrey L. Lomasky
Managing Director

STATEMENT OF ALL LEGAL REPRESENTATIVES

"We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces."

Vienna, 29 March 2016

Byron Haynes Managing Director	Corey Pinkston Managing Director
Anas Abuzaakouk Managing Director	Jeffrey L. Lomasky Managing Director

BOARDS AND OFFICERS OF BAWAG HOLDING GMBH

MANAGING BOARD OF BAWAG HOLDING GMBH AS OF 31 DECEMBER 2015

Byron HAYNES
(from 9 November 2009)

Corey PINKSTON
(from 1 August 2012)

Jeffrey L. Lomasky
(from 1 August 2012)

Anas ABUZAAKOUK
(from 31 July 2014)

SUPERVISORY BOARD OF BAWAG HOLDING GMBH AS OF 31 DECEMBER 2015

Chairman

Franklin W. HOBBS
(Member from 4 April 2013, Chairman from 1 August 2013)

Deputy Chairman

Keith TIETJEN
(from 31 March 2015 Member of the Supervisory Board from 31 July 2014)

Cees MAAS
(from 1 August 2013, previously Chairman from 15 October 2009 until 1 August 2013,
Member of the Supervisory Board from 9 October 2009)

Pieter KORTEWEG
(from 1 August 2013, previously,
Member of the Supervisory Board from 14 September 2007)

Members

André WEISS
(from 4 April 2013)

Frederick HADDAD
(from 4 April 2013)

Anthony J. GUIDO
(from 9 April 2013)

Walter OBLIN
(from 18 April 2012)

AUDITOR'S OPINION

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **BAWAG Holding GmbH**, Vienna, Austria, for the fiscal year from 1. January 2015 to 31 December 2015. These consolidated financial statements comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2015 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to § 245a UGB (Austrian Commercial Code) and § 59a BWG (Austrian Banking Act) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing – ISA. In accordance with International Standards on Auditing, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and other legal or regulatory requirements.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 29 March 2016

KPMG Austria GmbH Wirtschaftsprüfungs-und Steuerberatungsgesellschaft	Deloitte Audit Wirtschaftsprüfungs GmbH

signed by:	signed by:	
Mag. Bernhard Mechtler	pp Mag. Wolfgang Wurm	Dr. Peter Bitzyk
Wirtschaftsprüfer	Wirtschaftsprüfer	Wirtschaftsprüfer
(Austrian Chartered Accountant)	(Austrian Chartered Accountant)	

This report is a translation of the original report in German, which is solely valid. The financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes
HICP	Harmonized Index of Consumer Prices; basis for a comparative measurement of inflation in Europe and for evaluating the stability of monetary values within the Eurozone
IBNR	Allowance for incurred but not reported losses.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
NPL	Non-performing loan; all customer exposures in default risk class 8, regardless of whether a limit has been breached or the customer is in arrears on an individual account or not.
NPL coverage ratio	The total of impairment write-downs and collateral relative to the NPL exposure.
NPL LLP coverage ratio	Impairment write-downs relative to the NPL exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.

Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.
Value-at-risk (VaR)	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

Audited Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU as of and for the financial year ended December 31, 2014

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

CONTENTS

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	2014	2013
Interest income		1,089.9	1,112.4
Interest expense		(409.5)	(542.6)
Dividend income		9.8	9.4
Net interest income	**[2]**	**690.2**	**579.2**
Fee and commission income		302.0	288.8
Fee and commission expense		(104.2)	(100.8)
Net fee and commission income	**[3]**	**197.8**	**188.0**
Gains and losses on financial assets and liabilities	[4]	38.7	189.3
Other operating income and expenses	[5]	(10.3)	24.4
Operating expenses	[6], [7]	(521.3)	(699.8)
Provisions and impairment losses	[8]	(77.1)	(98.0)
Share of the profit or loss of associates accounted for using the equity method	[9]	0.9	(0.9)
Profit before tax		**318.9**	**182.2**
Income taxes	[10]	(0.5)	9.0
Profit after tax		**318.4**	**191.2**
Thereof attributable to non-controlling interests		10.2	40.4
Thereof attributable to owners of the parent		**308.2**	**150.8**

In accordance with IFRS, the item Other operating income and expenses also includes the bank levy in the amount of EUR 24.6 million. However, the Group's management sees the bank levy as a non-operating expense. Accordingly, it is shown in a separate expense line in the Group Management Report.

Operating expenses include administrative expenses and depreciation and amortization on tangible and intangible non-current assets, which were shown in separate lines in the previous year.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	2014	2013
Profit after tax	**318.4**	**191.2**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial losses on defined benefit plans	(66.8)	(13.1)
Income tax on items that will not be reclassified	16.7	3.3
Total items that will not be reclassified to profit or loss	**(50.1)**	**(9.8)**
Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences	0.0	(0.5)
Available-for-sale reserve	9.3	(82.6)
Share of other comprehensive income of associates accounted for using the equity method	1.5	(0.7)
Income tax relating to items that may be reclassified	(2.7)	27.7
Total items that may be reclassified subsequently to profit or loss	**8.1**	**(56.1)**
Total comprehensive income, net of tax	**276.4**	**125.3**
Thereof attributable to non-controlling interests	10.2	50.9
Thereof attributable to owners of the parent	**266.2**	**74.4**

The increase of the Available for sale reserve is mainly due to positive market value changes of securities.

The actuarial losses in 2014 in the amount of EUR 66.8 million are largely due to the adjustment of the interest rate used to calculate social capital from 3.50% in the previous year to 2.05% in the current year.

For further details, please refer to Note 34 Equity.

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	31.12.2014	31.12.2013
Cash reserves	[11]	684	481
Financial assets designated at fair value through profit or loss	[12]	450	753
Available-for-sale financial assets	[13]	3,859	5,154
Held-to-maturity investments	[14]	2,042	773
Financial assets held for trading	[15]	1,163	1,081
Loans and receivables	[16]	25,280	27,256
Customers		21,779	20,980
Securities		1,983	2,485
Credit institutions		1,518	3,791
Hedging derivatives	[33]	546	164
Property, plant and equipment	[19]	84	85
Goodwill	[20]	58	116
Brand name and customer relationships	[20]	174	191
Software and other intangible assets	[20]	102	82
Tax assets for current taxes		7	5
Tax assets for deferred taxes	[21]	193	186
Associates recognized at equity	[51]	44	25
Other assets	[22]	100	273
Assets in disposal groups	[32]	68	–
Total assets		**34,854**	**36,625**

The line item Property, plant and equipment was renamed compared to the consolidated financial statements as of 31 December 2013 (Tangible non-current assets). The line items Goodwill, Brand name and customer relationships as well as Software and other intangible assets were shown under the line item Intangible non-current assets in the consolidated financial statements as of 31 December 2013 and are also included in this item in Note 35 of this Consolidated Report.

Total liabilities and equity

in EUR million	[Notes]	31.12.2014	31.12.2013
Total liabilities			
Financial liabilities designated at fair value through profit or loss	[23]	1,675	2,968
Financial liabilities held for trading	[24]	1,174	1,298
Financial liabilities at amortized cost	[25]	27,985	28,218
Customers		21,127	22,011
Issued bonds, subordinated and supplementary capital		4,438	4,561
Credit institutions		2,420	1,646
Valuation adjustment on interest rate risk hedged portfolios		196	(2)
Hedging derivatives	[33]	160	126
Provisions	[29]	522	503
Tax liabilities for current taxes		1	1
Tax liabilities for deferred taxes	[30]	4	11
Other obligations	[31]	512	479
Obligations in disposal groups	[32]	6	–
Total equity	[34]	**2,619**	**3,023**
Equity attributable to the owners of the parent		2,619	2,230
Non-controlling interests		–	793
Total liabilities and equity		**34,854**	**36,625**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Foreign exchange differences	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2013	**100.0**	**1,493.8**	**403.7**	**165.0**	**0.5**	**(24.5)**	**2,138.5**	**994.6**	**3,133.1**
Transactions with owners	–	17.4	–	–	–	–	17.4	(1.3)	16.1
Dividends non-controlling interests	–	–	–	–	–	–	–	(1.3)	(1.3)
Owner’s contribution	–	17.4	–	–	–	–	17.4	–	17.4
Redemption of participation capital	–	–	–	–	–	–	–	(200.0)	(200.0)
Dividends	–	–	–	–	–	–	–	(51.2)	(51.2)
Total comprehensive income	–	(348.8)	499.6	(66.1)	(0.5)	(9.8)	74.4	50.9	125.3
Balance as of 31.12.2013 = 01.01.2014	**100.0**	**1,162.4**	**903.3**	**98.9**	**0.0**	**(34.3)**	**2,230.3**	**793.0**	**3,023.3**
Transactions with owners	–	125.6	–	–	–	–	125.6	(398.6)	(273.0)
Owner’s contribution	–	125.6	–	–	–	–	125.6	–	125.6
Redemption of participation capital	–	–	–	–	–	–	–	(350.0)	(350.0)
Dividends	–	–	(3.0)	–	–	–	(3.0)	(54.6)	(57.6)
Total comprehensive income	–	(201.6)	509.8	8.1	–	(50.1)	266.2	10.2	276.4
Balance as of 31.12.2014	**100.0**	**1,086.4**	**1,410.1**	**107.0**	**0.0**	**(84.4)**	**2,619.1**	**–**	**2,619.1**

For further details, please refer to Note 34 Equity.

CASH FLOW STATEMENT

in EUR million	2014	2013
I. Profit (after tax, before non-controlling interests)	**318**	**191**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities		
Depreciation, amortization, impairment losses, write-ups	86	140
Changes in provisions	(39)	(2)
Changes in other non-cash items	(129)	20
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	(11)	(169)
Other adjustments	(582)	(408)
Subtotal	**(357)**	**(228)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items		
Loans and advances to customers and credit institutions	1,861	2,324
Other financial assets (not including investing activities)	(291)	1,523
Other assets	7	63
Deposits from customers and banks	(29)	(1,929)
Other financial liabilities (not including financing activities)	(1,119)	(2,920)
Other obligations	38	(28)
Interest receipts	1,196	1,037
Dividend receipts	10	9
Interest paid	(590)	(651)
II. Net cash from operating activities	**726**	**(800)**
Cash receipts from sales of		
Financial investments	2,260	2,768
Tangible and intangible non-current assets	154	25
Cash paid for		
Financial investments	(2,556)	(1,906)
Tangible and intangible non-current assets	(47)	(47)
Cash receipts from sales of subsidiaries	–	12
Other changes	18	–
III. Net cash used in investing activities	**(171)**	**852**
Capital contributions	125	2
Redemption of participation capital	(350)	(200)
Dividends paid	(58)	(53)
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)	4	340
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)	(73)	(141)
IV. Net cash from financing activities	**(352)**	**(52)**
Cash and cash equivalents at end of previous period	**481**	**481**
Net cash from operating activities	**726**	**(800)**
Net cash used in investing activities	**(171)**	**852**
Net cash from financing activities	**(352)**	**(52)**
Cash and cash equivalents at end of period	**684**	**481**

The Cash Flow Statement provides information about the current state and development of the Group's cash and cash equivalents as of the reporting date. It shows inflows and outflows of cash broken down by operational activities, investing activities and financing activities. The amount of cash and cash equivalents reported comprises cash on hand and balances at central banks. The Cash Flow Statement is of low significance for BAWAG Holding Group. It is not a substitute for liquidity or financial planning and is not used as a management tool.

NOTES

KEY EVENTS DURING THE FINANCIAL YEAR

Asset Quality Review

The European Central Bank (ECB) conducted a comprehensive assessment of the Euro area banking system together with national competent authorities. The comprehensive assessment consisted of an Asset Quality Review (AQR) and a stress test to test the resilience of the Bank's balance sheets. The AQR of BAWAG P.S.K. Group, which started in February 2014, was a detailed analysis of the Bank's portfolio. The objective of the AQR was to assess the adequacy of provisioning, the appropriateness of collateral valuations for credit exposures and to challenge the valuations of complex instruments and high-risk assets on the balance sheet. The Common Equity Tier 1 (CET1) ratio of BAWAG P.S.K. Group at year-end 2013 was 14.5%. The adjustment from our AQR assessment was 21 basis points compared to the Austrian average of 95 basis points and the European average of 66 basis points. The AQR did not result in any material impacts on the financial statements or the level of regulatory capital required.

You can find further information on the results of the Comprehensive Assessment of BAWAG P.S.K. on the website of the ECB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

The registered office of BAWAG Holding GmbH is located at Wiesingerstraße 4, 1010 Vienna. BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K. AG), a wholly owned subsidiary of BAWAG Holding GmbH, is an Austrian bank, operating predominantly in Austria with additional activities in selected international markets.

The consolidated financial statements were prepared applying section 59a BWG, according to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and in accordance with the provisions of the standards (IFRS/IAS) published by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC/SIC) as applicable on the reporting date. All standards contained in the International Financial Reporting Standards published by the IASB and adopted by the EU and therefore mandatory with respect to the consolidated financial statements as of 31 December 2014 were applied.

These consolidated financial statements for BAWAG Holding according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2014. All material associates are accounted for using the equity method.

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

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

We have maintained the accounting and valuation methods that were applied in the consolidated financial statements as of 31 December 2013.

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

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

Scope of Consolidation and Consolidation Principles

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

As of 31 December 2014, the consolidated financial statements included 32 (2013: 45) fully consolidated companies and 2 (2013: 1) companies that are accounted for using the equity method. In the interest of materiality, the criteria for inclusion are both the amount of an entity's assets and its relative contribution to the Group's consolidated profit. All non-consolidated subsidiaries had only a minor influence on the Group's assets, financial position and the results of its operations. Note 49 List of consolidated subsidiaries contains a list of all fully consolidated subsidiaries and associates accounted for using the equity method.

The carrying amount of the associates that are not accounted for using the equity method totaled EUR 32 million (2013: EUR 47 million) on 31 December 2014. Controlled companies with a carrying amount of EUR 18 million (2013: EUR 23 million) were not consolidated because they did not have a material effect on the Group's assets, financial position or the results of its operations.

Further details on the scope of consolidation and major changes in the Group's holdings can be found in Note 49 and 50.

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

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

Capitalized goodwill in the amount of EUR 1 million (2013: EUR 59 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

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

All non-consolidated equity instruments are measured according to IAS 39 and categorized as available-for-sale financial assets.

Financial Instruments

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

a) Held-to-Maturity Investments

This category includes all financial instruments with fixed or determinable payments and fixed maturity that are intended to be held to maturity. If securities are assigned to this category, BAWAG Holding Group has the positive intention and the ability to hold the instruments to maturity.

Held-to-maturity investments are carried at amortized cost. The recoverable amount of the asset is determined at the end of every reporting period, and an impairment is recognized if this amount is lower than the carrying amount. The recoverable amount is calculated by discounting the expected future cash flows with the original effective interest rate of the financial instrument. If this impairment decreases in subsequent periods, a write-up is recognized up to the amortized cost valid at that time.

Premiums and discounts on securities classified as held-to-maturity investments are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against interest income from the same securities.

b) Financial Assets and Liabilities Recognized at Fair Value through Profit or Loss

Held for trading

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

Financial assets and liabilities designated at fair value through profit or loss

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

– To avoid an accounting mismatch

  – For fixed-income own issues, securities and loans whose fair value on the date of acquisition has been hedged with interest rate derivatives;

  – Investment products whose fair value changes have been hedged with derivatives

– Management on a fair value basis

– Certain securities and loans are managed on a fair value basis by the Strategic Asset Liability Committee, which also prepares decisions on the extent of the open interest rate risk exposures. The Managing Board is informed about these positions regularly.

– Presence of embedded derivatives

– Structured financial instruments with embedded derivatives

c) Loans and Receivables

Receivables are measured on the Statement of Financial Position at amortized cost inclusive of deferred interest following deduction of impairment allowances.

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

BAWAG Holding Group charges a processing fee when awarding a loan to a customer. Processing fees are deferred over the term of the loan and recognized in the net interest income after deducting the directly attributable costs.

Please see the Loan Loss Provisions section for information about the formation of provisions.

d) Available-for-Sale Financial Assets

This category covers financial assets which are not classified as

– Loans and receivables;

– Held-to-maturity investments; or

– Financial assets recognized at fair value through profit or loss.

In addition to the securities that BAWAG Holding Group has assigned to the category Available-for-sale financial assets, this item also includes shares in non-consolidated subsidiaries.

The Available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in other comprehensive income (AFS reserve) until the asset is sold, repaid or impaired. Impairments are recognized in the Profit or Loss Statement under Provisions and impairment losses – Impairment provisions for financial assets. BAWAG Holding Group continuously compares the nominal amount with the carrying amount of the available for sale financial assets to detect any possible impairments. Potential impairments are reviewed and – in case of materiality – approved by the responsible Risk Division. When the reasons for the impairment of a debt instrument no longer apply, these impairments are reversed through profit or loss up to the amount of amortized cost. Any reversal of impairment for equity instruments recognized at fair value is recognized directly in other comprehensive income.

If a fair value for unlisted equity instruments cannot be measured reliably, it is measured at cost less necessary impairments. Impairments are not reversed.

Debt instruments are reviewed individually for impairment if objective indications of a loss (such as delayed payment) are incurred after the date of initial recognition that would lead to a reduction in the cash flow arising from them. An impairment exists when the net present value of the expected cash flows is lower than the carrying value of the financial instrument concerned.

Equity instruments are written down if their fair value is either significantly lower than their historic cost (more than 20%) or has been below historic cost for a considerable period (at least nine months). All not publicly traded equity investments are tested for impairment according to IAS 39.66, provided that a preliminary examination has not ruled out impairment indicators.

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

e) Financial Liabilities

In accordance with IAS 39, financial liabilities

– not held for trading or

– designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

Reclassifications

Reclassification of Financial Assets into the Category Loans and Receivables

Financial assets can be reclassified from the category available-for-sale to the category of loans and receivables when

– the financial asset meets the requirements for inclusion in the category loans and receivables according to IAS 39 on the date of reclassification; and

– the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets for the foreseeable future.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category loans and receivables.

When available-for-sale assets are reclassified into loans and receivables, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Provisions and impairment losses – Impairment provisions for financial assets.

Details are presented in Note 16.

Reclassification of Financial Assets into the Category Held-to-maturity Investments

Financial assets can be reclassified from the category available-for-sale to the category of held-to-maturity investments when the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets until maturity.

In addition, available-for-sale financial assets may be reclassified to held-to-maturity investments after the two-year retention period that is required if more than an insignificant portion of the held-to-maturity investments is sold or reclassified, has expired.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category held-to-maturity investments.

When available-for-sale assets are reclassified into held-to-maturity investments, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Provisions and impairment losses – Impairment provisions for financial assets.

Details are presented in Note 14.

Reclassification of Financial Assets into the Category Available-for-Sale

IAS 39 and its interpretations state that financial instruments that are classified as loans and receivables can be reclassified as available-for-sale assets when the financial instrument subsequent to its initial classification becomes traded in an active market and therefore the definition of loans and receivables is no longer met.

When an asset is reclassified as available-for-sale, it must be remeasured at its fair value, and any difference between its carrying amount and its fair value must be recognized in Other comprehensive income (AFS reserve).

Hedge Accounting

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

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

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

Micro Fair Value Hedge

In a micro fair value hedge, a financial asset or financial liability or a group of similar financial assets or financial liabilities is hedged against changes in its fair value. Changes in the value of the hedged item and the hedging instrument are recognized in the Profit or Loss Statement in the line item Gains and losses on financial assets and liabilities in the same period.

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

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

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

Portfolio Fair Value Hedge

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

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

Loan Loss Provisions

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

– there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date (“a loss event”);

– the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets and

– a reliable estimate of the loss amount can be made.

The loan loss provisions cover provisions for loan defaults or counterparty risks and are formed as individual and general provisions on the basis of past experience. The loan loss provisions from lending are netted off against the corresponding receivables on the Statement of Financial Position. Provisions for off-balance-sheet loans are reported as provisions.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counter-party relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counter-party risks is based on expected future recoveries in accordance with the risk analysts' estimates. Provisions for counterparty risks that were not individually significant were accounted for generally, on a percentage basis, with regard to the amounts overdue and based on our historical loss experience.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are derecognized in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

A loan loss provision was accounted for on a portfolio basis in accordance with IAS 39.AG89 for losses incurred but not reported as of the reporting date. The portfolio loan loss provision is recognized for on- and off-balance-sheet receivables of the Group's loan portfolio including securities but excluding items recognized at fair value. The amount of this provision is calculated on the basis of the regulatory Expected Loss Model. The actual loss that has been incurred is extrapolated from the expected loss, taking into account the duration from occurrence to detection of the loss (the loss identification period – LIP). For this reason, financial assets are grouped on the basis of similar credit risk characteristics (IAS 39.AG87). The classification is based on the categories of claims against Banks, Corporates, Sovereigns and Retail. LIP is calculated for each segment and is based on the average time until identification of the 90 days overdue status based on expected cash inflows according to the repayment plans. LIP is calculated as the exposure-weighted average in months. Depending on the risk monitoring process, a shorter LIP than calculated based on expected cash flows is anticipated.

For loans backed by a repayment vehicle, which mainly include loans in foreign currencies, a provision based on funding gaps is considered as well.

Financial Guarantees

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

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

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

Methods for Determining the Fair Value of Financial Instruments

Derivatives

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in Note 35. Some basic information is presented here:

The basic valuation model used for plain vanilla OTC options was the Black-Scholes option price model, which varies according to the underlying instruments and hedged items. Currency options were measured using the Garman-Kohlhagen model, and interest rate options using the Black or Hull-White model.

For positions in the trading book, the closing costs of the positions (bid/ask spreads) on a net basis are calculated on a regular basis.

The total value of an interest rate swap is derived from the present values of its fixed and variable rate legs. Similarly, the total value of a cross currency swap is derived from the present values of the two cash flows expressed in terms of the functional currency of the Group entity.

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

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

BAWAG Holding Group determines a credit (CVA) or debt value adjustment (DVA) for the credit risk of OTC derivatives. If available, liquid credit default swap (CDS) spreads are generally used to determine the probability of default (PD) and the recovery rate (REC). If this is not possible, equivalent segments of the CDS market are used.

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

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

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

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

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

In the case of the close-out of a derivative transaction with a customer, the type of claim changes for BAWAG Holding Group Before the contract is terminated, the asset is a derivative, while after the contract is closed out, the asset is a contractual claim whose value no longer changes depending on market parameters. For this reason, the claim no longer satisfies the definition of a derivative according to IAS 39.9.

In the event of the early termination of a derivative transaction, the variability of the payment flows in terms of amount and time of occurrence are materially changed by the close-out, and the original derivative is replaced with a new asset. This new asset is recognized at its fair value according to IAS 39.43. The fair value corresponds to the carrying amount of the derivative at the time that the agreement is terminated, including any valuation adjustments applied up to the time of termination. A claim arising from the termination of the agreement meets the criteria in IAS 39.9 for categorization under loans and receivables.

This approach was chosen following IAS 39.40 and IAS 39.21, since IAS 39 contains no explicit rules for when a financial instrument first fulfills the characteristics of a derivative and then no longer exhibits these characteristics at a later time. According to IAS 8.10 to 8.12, such gaps in the standards must be closed by applying a similar provision in the IFRS and taking the framework into account.

The method described above was especially important in the transaction with the City of Linz in 2011.

Credit-Linked Notes

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

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

Measurement for Asset-Based Investments

BAWAG Holding Group uses internal valuation models to determine the fair values of CLOs for which there is no active market. BAWAG Holding Group's CLO model is calibrated to actively traded loans and uses available market data (such as yield curves, CDS spreads, loan prices, etc.) as inputs. The implied probabilities of default (default intensities) and loss rates (severities, LGD) are determined on the basis of the fair values of the loans taking a discount margin (liquidity costs) into account. Working from this, default scenarios that are consistent with the market are generated (Monte Carlo simulation) for each CLO transaction and used to project the expected CLO cash flows. The fair value of the CLO transactions is derived by discounting the expected cash flows with the corresponding reference interest rate plus the discount margin, which is determined by calibrating the prices of currently traded CLOs.

Transfers of Financial Instruments

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

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

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

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

Conversely, under agreements to resell, known as "reverse repos," financial assets are acquired for a consideration while at the same time committing to their future resale. Cash outflows under reverse repos are recorded within trading assets.

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the loan. Securities lent to counterparties are accounted for in the same way as repos: They are retained in the Group's financial statements and are measured in accordance with IAS 39. Securities lending and borrowing transactions are generally collateralized. Collateral furnished by the securities borrower continues to be recorded in the borrower's financial statements.

Intangible Non-Current Assets, Property, Plant and Equipment

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

Intangible non-current assets with an infinite useful life are recognized at cost less impairments. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 2.5% and 4%, while other furniture and equipment are depreciated at annual rates between 5% and 33.3%. Purchased and self-produced software, and other intangible assets and rights (other than goodwill and brand name) are amortized at annual rates of 10%, 20% and 33.3%. Customer relationships are amortized over approximately 20 years using arithmetic declining amortization rate.

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

Investment Properties

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

Land and buildings held for investment purposes (investment property) are measured at cost less straight-line depreciation for buildings and less impairments (IAS 40). Depreciation ranges between 2.5% and 4% per year. In addition to reviewing the method of depreciation and useful lives, impairment tests are also performed as of each reporting date.

Impairment Testing

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

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (1.0%) thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. The discount rate was estimated based on average equity returns in the sector and amounts to 8.34%.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36. All not publicly traded equity investments were tested for impairment according to IAS 39.66, provided that a preliminary examination has not ruled out impairment indicators.

To determine the value in use of the CGU, the present value of the projected pre-tax profits reduced by the nominal tax rate was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the CGU in question. The pre-tax discount rate was derived from the planned pre-tax profits and the above-mentioned valuation result, and served as a target value.

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

As a rule, the planning horizon used for valuation purposes is five years. The long-term growth rates used in the calculation are 1.0%, applying the going concern principle.

The pre-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. As of 31 December 2014, the following parameters are used:

- The risk-free rate (1.96%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.
- The source for the country-specific market risk premium (5.00% for Austria) is the website Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose working group "Business Valuation" sets a range from 5.5% to 7%. A market risk premium of 6.25% was chosen for Austria.
- The applied beta factor for banks and financial service companies (1.02) is the two-year average beta of thirteen banks listed on European stock exchanges with retail as their core business. Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 qualify for the peer group. The applied beta factor for non-banks is 1.0, which represents a specific parameter and no general market risk.

Based on the aforementioned assumptions, the value in use of the CGU or equity investment was calculated for the year under review in accordance with IAS 36. Value in use represents the present value of the estimated future cash flows expected from a cash generating unit or a single entity.

The sales price according to the signed sales agreement reduced by the transaction costs was used for the valuation of the CGU BAWAG P.S.K. INVEST GmbH. The Group's interest in BAWAG P.S.K. Versicherung Aktiengesellschaft is assessed using the embedded value and an estimation of the future value.

In addition, intangible and tangible assets are tested at the reporting date to determine whether or not there is evidence that they are impaired. If there is evidence for impairment, the recoverable amount is calculated for the asset. This is the higher of the value in use or the net selling price. If the recoverable amount is lower than the carrying amount, an impairment loss in the amount of the difference is recognized according to IAS 36. As of 31 December 2014, no impairments of intangible and tangible assets were accounted for.

In the case of real estate companies and own real estate, current estimated market values of the properties are taken into account. External appraisals are renewed every three years at the latest.

Leasing

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

BAWAG Holding as Lessor

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

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

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

BAWAG Holding as Lessee

Expenditure on operating leases is recorded on a straight-line basis over the life of the lease agreement and reported under operating expenses.

Finance leases where BAWAG Holding Group is a lessee are of minor significance.

Income Taxes and Deferred Taxes

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

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

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

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2014, unused tax losses amounted to EUR 1,485 million (2013:EUR 1,495 million) at the level of BAWAG Holding, EUR 1,205 million (2013: EUR 1,337 million) at the level of BAWAG P.S.K., EUR 91 million (2013: EUR 65 million) at the level of members of the tax group included in the consolidated financial statements and EUR 67 million (2013: EUR 75 million) at the level of other companies included in the consolidated financial statements, hence a total of EUR 2,848 million (2013: EUR 2,971 million).

The utilizability of unused tax losses and deferred tax assets by BAWAG Holding was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to EUR 1,013 million (2013: 976 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately EUR 253 million (2013: EUR 242 million) are recognized within BAWAG Holding Group. If the forecasted taxable results varied by 10% compared to management estimations, deferred tax assets would increase by EUR 24 million (2013: increase by 23 million) if results improve or decrease by EUR 24 million (2013: decrease by 23 million) if forecasted results turn out to be lower than expected.

A tax group pursuant to section 9 KStG was parented by BAWAG Holding GmbH in the financial year. On 31 December 2014, the tax group consisted of the group parent and 19 domestic members (previous year: 27 members). A tax collection agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole. The payable tax is allocated to each group member with a positive tax result on the basis of its proportionate share of the group's tax result. An internal tax loss carryforward is taken into account for tax losses allocated to the group parent. If the head of the tax group has to pay a minimum corporate tax, the head of the tax group is able to burden the members of the tax group with a proportion of the minimum corporate tax following the principle of tax causation.

During the financial year, a settlement agreement to the group and tax compensation agreement was concluded between the group parent and each tax group member.

This agreement stipulates that an interim settlement of the tax equalization is to be made for the financial years 2010 to 2014, with all tax contributions of these financial years being regarded as offset.

A final settlement for uncredited tax losses must be effected upon dissolution of the tax group or when a member entity leaves the group. As of 31 December 2014, the exit of BAWAG Holding from the tax group and the exit of all other group members, with the exception of the new members in 2013 and 2014, would not result in a corporate income tax back payment as of 31 December 2014 because the minimum period of three years as required by section 9 paragraph 10 KStG was already fulfilled. The new group members who entered the tax group in 2013 and 2014 would incur a marginal corporate income tax back payment.

Provisions

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

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

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2014	2013
Interest rate	2.05% p.a.	3.50% p.a.
Wage growth	1.90% p.a.	2.00% p.a.
Fluctuation discount	0%–3.22% p.a.	0%–3.22% p.a.

Parameters for severance payments and anniversary bonuses

	2014	2013
Interest rate	2.05% p.a.	3.50% p.a.
Wage growth severance payments	3.10% p.a.	4.00% p.a.
Wage growth anniversary bonuses	2.80% p.a.	4.00% p.a.
Fluctuation discount severance payments	0%–1.75% p.a.	0%–1.75% p.a.
Fluctuation discount anniversary bonuses	0%–5.07% p.a.	0%–5.07% p.a.
Retirement age	57–65 years[1)]	57–65 years[1)]

1) The earliest possible individual retirement age as per ASVG was assumed.

The interest rate used has been changed from 3.50% in the previous year to 2.05% in 2014.

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

The existing post-employment benefit plans in BAWAG Holding Group that are financed entirely through provisions because they are defined benefit obligations pertain primarily to post-employment benefit rights and future rights of employees of BAWAG P.S.K. AG. The allocated assets disclosed by the pension fund set up for certain beneficiaries are set off against the determined amounts of provisions for post-employment benefits.

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

The post-employment benefit rights of the majority of employees are covered by BONUS Pensionskassen AG and Bundespensionskasse AG (defined contribution plans). The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations.

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation.

Contingent Liabilities and Unused Lines of Credit

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

Assets and Obligations in Disposal Groups

Non-current assets (or disposal groups consisting of assets and liabilities) must be classified as held for sale when the corresponding carrying amount is primarily the result of a sale transaction and not of continued use.

Immediately before the first-time classification as held for sale, the assets (or disposal groups) are measured according to the Group's accounting policies. Then, the non-current assets (or disposal groups) are recognized at the lower of their carrying amount or fair value less selling costs.

Impairments of assets (or disposal groups) are first offset against goodwill and then against the remaining assets and liabilities on a proportionate basis if the impairment does not pertain to inventories, financial assets, deferred tax assets or staff benefits. These must still be recognized in accordance with the Group's accounting policies. First-time and subsequent impairment losses and reversals are recognized directly in income. Reversals of impairments may only be completed up to the amount of the cumulative recognized impairment losses. The reversal of the impairment of a goodwill is not permitted. No impairments were recognized in 2014.

Equity

Equity is the capital provided by the Group's owners (issued capital and capital reserves) and the capital generated by the Group (retained earnings, reserves from currency translation, AFS reserve, actuarial gains and losses, profit brought forward and the profit for the period).

Revenue Recognition

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

Interest Income and Interest Expense

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

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Interest income and interest expense are recognized on an accrual basis.

Fee and Commission Income and Expense

This item consists mainly of income from and expenses for payment transfers, the securities and custody business, lending and payments to Österreichische Post AG for the use of its distribution network. Income and expenses are recognized on an accrual basis.

Gains and Losses on Financial Assets and Liabilities

This item consists mainly of the valuations and sales gains or losses of our investments and issued securities and the result from trading in securities and derivatives. Moreover, hedging inefficiencies and foreign exchange differences are shown within this position.

Other Operating Income and Expenses

The other operating result reflects all other income and expenses not directly attributable to ordinary activities, such as results on the sale of property. In addition, the other operating result encompasses expenses for other taxes, income from the release of other provisions and the reimbursement of expenses to customers.

Administrative Expenses

General administrative expenses represent personnel and other administrative expenses accrued in the reporting period.

Provisions and Impairment Losses

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet.

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets.

Net Gains or Losses on Financial Instruments

Net gains or losses on financial instruments include fair value measurements recognized in the income statement, impairments, impairment reversals, gains realized on disposal and subsequent recoveries on written-down financial instruments classified in the respective IAS 39 categories. The components are detailed for each IAS 39 category in the notes on net interest income, gains and losses on financial assets and liabilities, and provisions and impairment losses.

Latitude of Judgment and Uncertainty of Estimates

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

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

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 1 Accounting policies and in Note 35 Fair value.

Assessments as to whether or not cash generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. Details on the impairment test and the analysis of uncertainties surrounding the estimation of goodwill are set out in Note 1 Accounting policies and Note 20 Goodwill, Software and other intangible assets.

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax-loss carryforwards and profitability information and, if relevant, forecasted operating results based upon approved business plans, including tax planning opportunities. The Group regularly reevaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 1 Accounting policies as well as in Note 21 Tax assets and Note 30 Tax liabilities.

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

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

– assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business

– recognition of provisions for uncertain liabilities.

Latitude of Judgment and Uncertainty of Estimates – City of Linz

Uncertainties in estimations also apply to the claim of BAWAG P.S.K. against the City of Linz. On 12 February 2007, the City of Linz and BAWAG P.S.K. concluded a forward financial transaction. This transaction was intended by the City of Linz to optimize a CHF loan it had taken out with another bank.

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

The City of Linz filed a lawsuit against BAWAG P.S.K. at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling EUR 24.2 million at the exchange rate at that time). BAWAG P.S.K. filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The court combined the two suits. The first verbal hearings were held in the spring of 2013. BAWAG P.S.K.'s strong legal position remains unchanged and the Bank is well prepared for the ongoing court hearings. The court has recently appointed an expert. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it was assumed that the further legal proceedings will take approximately three years.

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

After the termination of the transaction, the derivative was derecognized and a receivable was recognized under Receivables from customers (classified under *Loans and advances*). We base our assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim.

No amounts are being disclosed in application of IAS 37.92 (protective provisions for information in the notes).

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2014 consolidated financial statements:

The amendments to IAS 36 *Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets* lead to a reduction of disclosure requirements. The recoverable amount of an asset or a cash generating unit only has to be disclosed if an impairment or a reversal of an impairment has been recognized in the current accounting period. Furthermore, new disclosure requirements are introduced. These disclosures have to be made if an impairment or a reversal of an impairment of an asset or a cash generating unit has been recognized and the recoverable amount was calculated based on fair value less costs of disposal. The amended IAS 36 had no major effect on the consolidated financial statements of BAWAG Holding Group.

The amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* allow hedge accounting to continue in situations where a derivative that has been designated as a hedging instrument is novated to effect clearing with a central counterparty as a result of legal or regulatory requirements. The amended IAS 39 had no effect on the consolidated financial statements of BAWAG Holding Group.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity is in control of one or more other entities. IFRS 10 sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee and sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 had no major effect on the consolidated financial statements of BAWAG Holding Group.

IFRS 11 *Joint Arrangements* defines that a party to a joint arrangement must determine the type of joint arrangement in which it is involved by assessing its rights and obligations. The party must account for those rights and obligations in accordance with the determined type of joint arrangement. IFRS 11 had no major effect on the consolidated financial statements of BAWAG Holding Group.

IFRS 12 *Disclosure of Interests in Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the natures of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 has led to additional disclosures for participations and structured entities in the consolidated financial statements of BAWAG Holding Group.

IAS 27 *Consolidated and Separate Financial Statements* has been amended and reissued as IAS 27 *Separate Financial Statements*. Consolidation requirements previously included in IAS 27 have been revised and are now contained in IFRS 10 *Consolidated Financial Statements*. IAS 27 is not applicable to the consolidated financial statements of BAWAG Holding Group.

IAS 28 *Investments in Associates and Joint Ventures* includes the requirements for associates, as well as joint ventures, in order to be accounted for using the equity method following the issue of IFRS 11. IAS 28 had no major effect on the consolidated financial statements of BAWAG Holding Group.

The following standards, amendments and interpretations to existing standards were approved by the International Accounting Standards Board (IASB) and endorsed by the EU but are not yet mandatory for the preparation of IFRS financial statements for the period ended 31 December 2014:

The amendments to IAS *19 Employee Benefits: Defined Benefit Plans – Employee Contributions* clarify the requirements that relate to how contributions from employees or third parties that are linked to services should be attributed to periods of service. They also permit an expedient if the amount of the contributions is independent of the number of years in service. The amended IAS 19 is applicable to annual reporting periods beginning on or after 1 July 2014 and will have no major impact on the consolidated financial statements of BAWAG Holding Group.

Already in December 2013, the IASB issued in the context of its annual improvement project *Annual Improvements to IFRSs 2010-2012 Cycle* and clarified the following existing standards: IFRS 2 *Share-based Payment*, IFRS 8 *Operating Segments*, IAS 16 *Property, Plant and Equipment*, IAS 24 *Related Party Disclosures* and IAS 38 *Intangible Assets*. The clarifications are applicable to annual reporting periods beginning on or after 1 July 2014 and will have no impact on the consolidated financial statements of BAWAG Holding Group.

In December 2014, the EU endorsed *Annual Improvements to IFRSs 2011-2013 Cycle,* which clarifies the following existing standards: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations*, IFRS 13 *Fair Value Measurement* and IAS 40 *Investment Property*. The clarifications are applicable to annual reporting periods beginning on or after 1 July 2014 and will have no impact on the consolidated financial statements of BAWAG Holding Group.

IFRIC 21 *Levies* is an interpretation applicable to levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and the amount of the levy is certain. IFRIC 21 clarifies that liabilities for levies can be recognized only when the activity that triggers the payment, as defined by the relevant legislation, occurs. In the EU, IFRIC 21 is applicable to annual reporting periods beginning on or after 1 July 2014 and will have no impact on the consolidated financial statements of BAWAG Holding Group.

The following standards and amendments approved by the International Accounting Standards Board (IASB) have not yet been endorsed by the European Union:

In July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value and fair value through other comprehensive income.

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 for sale and 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. The financial instrument is assessed in its entirety and measured at fair value through profit or loss. There are a few exceptions, e.g. for put, call, prepayment and extension options, and for interest rate caps or floors.

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39, with fair value changes related to changes in the entity's own credit risk recognized in other comprehensive income. There is an exception for the case when this practice would lead to inconsistencies in the measurement of assets and liabilities. The assessment must be performed at the initial recognition. A retrospective recognition of other comprehensive income from changes in the entity's own credit risk in the Profit or Loss Statement is not permitted.

IFRS 9 fundamentally changes the accounting model for impairments. Now, not only losses already sustained but not yet recognized ("incurred loss model") have to be accounted for, but also expected losses for future cash flows ("expected loss model").

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 were 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.

IFRS 9 will become mandatory for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 is expected to have a material impact on the processes and financial accounts of BAWAG Holding Group, but from a present-day perspective a reliable statement regarding the influence on future consolidated financial statements of BAWAG Holding Group cannot be made.

In December 2014, the IASB issued *Disclosure Initiative (Amendments to IAS 1)*. The amendments are designed to further illustrate the concept of materiality and therefore reduce immaterial information in IFRS financial statements, while encouraging the communication of relevant information. It is clarified that the materiality concept is applicable to all parts of an IFRS financial statement, especially the notes. Immaterial information should not be presented, even if a standard explicitly requires a specific disclosure. Furthermore, material information should not be aggregated with immaterial information. Additional subtotals can be added to the Statement of Financial Position and the Statement of Comprehensive Income if this is relevant for a better understanding of the net assets, financial position and earnings situation. Moreover, it is clarified that the share of other comprehensive income of associated or joint ventures accounted for using the equity method should be presented in aggregate as a single line item based on whether it will subsequently be reclassified to profit or loss or not. In order to emphasize that the notes need not be presented in the order so far listed in IAS 1.114, additional examples of possible ways of ordering the notes are added, to make clear that understandability and comparability should be considered when determining the order of the notes. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful. The amendments are applicable to annual reporting periods beginning on or after 1 January 2016 and will lead to an amended presentation of other comprehensive income of BAWAG Holding Group.

In May 2014, the IASB issued *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*. The amendments provide additional guidance on the methods permitted when calculating depreciation or amortization of property, plant and equipment and intangible assets. The amendments are applicable to annual reporting periods beginning on or after 1 January 2016 and will have no major impact on the consolidated financial statements of BAWAG Holding Group.

In June 2014, the IASB issued *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*. The amendments bring bearer plants into the scope of IAS 16, are applicable to annual reporting periods beginning on or after 1 January 2016 and will not be applicable to the consolidated financial statements of BAWAG Holding Group.

The amendments to IAS 27 *Equity Method in Separate Financial Statements* reinstate the equity method as an accounting option in separate financial statements and are applicable to annual reporting periods beginning on or after 1 January 2016. IAS 27 is not applicable to the consolidated financial statements of BAWAG Holding Group.

In September 2014, the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*, which clarifies that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are mandatory for annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding Group. from a current perspective.

In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).* Issues which have arisen in the context of applying the consolidation exception for investment entities are addressed. The amendments are mandatory for annual reporting periods beginning on or after 1 January 2016 and are not applicable to the consolidated financial statements of BAWAG Holding Group.

The amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* clarify the accounting for acquisitions of an interest in a joint operation when the activity constitutes a business. The amended IFRS 11 is applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding Group. from a current perspective.

IFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of the International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP. IFRS 14 is applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding Group.

In May 2014, IFRS 15 *Revenue from Contracts with Customers* was issued by the IASB. IFRS 15 specifies when and how revenue from contracts with customers is to be recognized. IFRS 15 replaces the standards IAS 11 *Construction Contracts* and IAS 18 *Revenue*, as well as IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 will become mandatory for annual reporting periods beginning on or after 1 January 2017. BAWAG Holding Group will analyze the potential effects of IFRS 15 in the coming months.

In September 2014, the IASB issued in the context of its annual improvement project *Annual Improvements to IFRSs 2012-2014 Cycle* and clarified the following existing standards: IFRS 5 *Non-current*

Assets Held for Sale and Discontinued Operations, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The clarifications are applicable to annual reporting periods beginning on or after 1 January 2016 and will have no impact on the consolidated financial statements of BAWAG Holding Group.

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Net interest income

in EUR million	2014	2013
Interest income	**1,089.9**	**1,112.4**
Cash reserves	0.3	1.2
Financial assets held for trading	262.5	239.8
Financial assets designated at fair value through profit or loss	23.8	43.7
Available-for-sale financial assets	122.6	176.6
Loans and receivables	643.4	637.3
Held-to-maturity investments	37.3	13.8
Interest expense	**(409.5)**	**(542.6)**
Financial liabilities held for trading	(91.8)	(143.2)
Financial liabilities designated at fair value through profit or loss	(81.3)	(142.7)
Financial liabilities measured at amortized cost	(236.4)	(256.7)
Dividend income	**9.8**	**9.4**
Available-for-sale financial assets	9.8	9.4
Net interest income	**690.2**	**579.2**

Interest income and similar income are recognized on an accrual basis. Interest income also includes premiums on securities classified as financial investments which are allocated in accordance with the accruals concept. Interest income on impaired receivables during 2014 amounted to EUR 3.5 million (2013: EUR 2.8 million).

3 | Net fee and commission income

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

in EUR million	2014	2013
Fee and commission income	**302.0**	**288.8**
Payment transfers	178.4	171.7
Lending	27.8	28.9
Securities and custody business	62.7	58.1
Other services	33.1	30.1
Fee and commission expense	**(104.2)**	**(100.8)**
Payment transfers	(39.5)	(32.4)
Lending	(2.2)	(0.1)
Securities and custody business	(11.5)	(12.3)
Others	(51.0)	(56.0)
Net fee and commission income	**197.8**	**188.0**

4 | Gains and losses on financial assets and liabilities

in EUR million	2014	2013
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**64.3**	**174.1**
Available-for-sale financial assets	57.1	115.6
Loans and receivables	14.0	56.9
Financial liabilities measured at amortized cost	(10.9)	0.1
Gain from the sale of subsidiaries and associates and other result	4.1	1.5
Gains (losses) on financial assets and liabilities held for trading, net	**(10.6)**	**(135.4)**
Gains (losses) on financial assets and liabilities at fair value through profit or loss, net	**(25.4)**	**122.9**
Gains (losses) from fair value hedge accounting	**3.6**	**16.5**
Fair value adjustment of hedged item	(328.7)	35.8
Fair value adjustment of hedging instrument	332.2	(19.3)
Exchange differences, net	**6.8**	**11.2**
Gains and losses on financial assets and liabilities	**38.7**	**189.3**

The item **gains and losses on financial assets and liabilities** was influenced primarily by the valuation and sales of our investments, issued securities and derivative transactions for customers.

in EUR million	2014	2013
Gains and losses on financial assets and liabilities excluding non-controlling interests	35.9	198.0
Gains and losses on financial assets attributable to non-controlling interests	2.7	(8.7)
Gains and losses on financial assets and liabilities according to Consolidated Profit or Loss Statement	**38.7**	**189.3**

5 | Other operating income and expenses

in EUR million	2014	2013
Net income from investment properties	(0.8)	0.2
Income from investment properties	0.4	1.2
Expenses relating to investment properties	(1.2)	(1.0)
Gains from the sale of property, plant and equipment	3.1	62.8
Losses from the sale of property, plant and equipment	(0.5)	(4.6)
Bank levy	(24.6)	(25.3)
Other income and expenses	12.5	(8.7)
Other operating income and expenses	**(10.3)**	**24.4**

Rental income from investment properties amounted to EUR 0.5 million in 2014 (2013: EUR 1.0 million); expenses amounted to EUR 1.0 million in 2014 (2013: EUR 0.8 million). Vacancy costs amounted to EUR 0.2 million (2013: EUR 0.2 million).

In 2013, income from the sale of property, plant and equipment included EUR 61 million from the sale of the Company building located at Georg-Coch-Platz 2, 1018 Vienna. A long-term lease contract for this property was concluded with the new owner.

6 | Administrative expenses

in EUR million	2014	2013
Staff costs	**(284.4)**	**(322.7)**
Wages and salaries	(209.8)	(243.9)
Statutory social security contributions	(59.9)	(63.7)
Staff benefit costs	(11.2)	(10.8)
Increase of pension provision	(11.0)	(11.4)
Decrease of provision for severance payments	5.9	6.1
Decrease of provision for jubilee benefits	1.6	1.0
Other administrative expenses	**(185.8)**	**(199.4)**
IT, data, communication	(53.7)	(56.0)
Real estate, utility, maintenance expenses	(48.5)	(43.2)
Advertising	(34.7)	(38.7)
Other general expenses	(21.1)	(23.6)
Other third party fees – legal, outsourcing, etc.	(11.8)	(10.9)
Postage fees	(10.2)	(11.7)
Regulatory projects and audit fees	(5.8)	(15.3)
Restructuring and other one-off expenses	**(3.5)**	**(106.9)**
Administrative expenses	**(473.7)**	**(629.0)**

The line item Restructuring and other one-off expenses mainly includes expenses for restructuring costs in 2014, partially offset by the release of a provision for legal costs and for vacation pay, therefore totaling EUR 3.5 million.

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

in EUR million	2014	2013
Depreciation and amortization		
Brand name and customer relationships	(16.9)	(16.3)
Software and other intangible assets	(18.4)	(35.5)
Property, plant and equipment	(12.3)	(19.0)
Depreciation and amortization	**(47.6)**	**(70.8)**

8 | Provisions and impairment losses

in EUR million	2014	2013
Loan loss provisions of Loans & receivables	(79.8)	(70.9)
Changes in provisions for off-balance credit risk	7.2	(14.1)
Impairment losses on financial assets	(4.5)	(11.4)
Impairment losses on non-financial assets	–	(1.6)
Provisions and impairment losses	**(77.1)**	**(98.0)**

Impairment losses on financial assets

in EUR million	2014	2013
Available-for-sale financial assets – equity investments	(4.5)	(10.3)
Available-for-sale financial assets – debt instruments	–	(0.8)
Held-to-maturity investments	–	(0.3)
Impairment losses on financial assets	**(4.5)**	**(11.4)**

Impairment losses on non-financial assets

The following table depicts the impairments and reversal of impairments made on individual non-financial assets.

in EUR million	2014	2013
Property, plant and equipment	–	(0.1)
Software and other intangible assets	–	(1.5)
thereof Goodwill	–	–
thereof Software and other intangible assets	–	(1.5)
Impairment losses on non-financial assets	**–**	**(1.6)**

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

The profit reported for the current year of EUR 0.9 million (2013: minus EUR 0.9 million) contains the proportionate share in BAWAG P.S.K. Versicherung AG.

The unrecognized share of the losses of entities that were accounted for using the equity method as provided by IFRS 12.22 (c) came to EUR 0.0 million (2013: EUR 0.0 million).

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

Associates accounted for using the equity method

in EUR million	2014	2013
Cumulated assets	2,396	2,062
Cumulated liabilities	2,278	2,008
Cumulated equity	118	54
Earned premiums (gross)	314	219
Fee and commission income	179	–
Cumulated net profit	22	9

The associates accounted for using the equity method are BAWAG P.S.K. Versicherung Aktiengesellschaft (stake of 25.00%) and PSA Payment Services Austria GmbH (stake of 20.82%), which was consolidated for the first time as of December 2014. For further details, please refer to Note 37 Related parties.

10 | Income taxes

in EUR million	2014	2013
Current tax expense	(1.8)	(0.4)
Deferred tax expense/income	1.3	9.4
Income taxes	**(0.5)**	**9.0**

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

in EUR million	2014	2013
Profit before tax	318.9	182.2
Tax rate	25%	25%
Computed tax expenses	**(79.7)**	**(45.6)**
Reductions in tax		
Due to tax-exempt income from equity investments	6.3	2.4
Due to gains and losses from the valuation of equity investments	11.5	10.2
Due to the sale of equity investments	0.5	–
Due to other tax-exempt income	2.2	0.2
Due to differing foreign tax rates	1.7	1.6
Due to use of tax loss carryforwards without recognition of deferred taxes	51.1	53.8
Due to other tax effects	11.0	0.3
Increases in tax		
Due to gains and losses from the valuation of equity investments	(0.2)	(9.6)
Due to unrecognized deferred taxes on tax loss carryforwards	(2.0)	(0.5)
Due to non tax deductible expenses	(0.1)	(4.1)
Due to other tax effects	(2.4)	(1.1)
Income tax in the period	**(0.3)**	**7.7**
Out-of-period income tax	(0.2)	1.3
Reported income tax (expense)	**(0.5)**	**9.0**

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 253 million (2013: EUR 242 million). The majority of the tax losses could be carried forward for an unlimited period. The untaxed portion of the liability reserve was EUR 372.9 million (2013: EUR 372.9 million).

As of 31 December 2014, unused tax losses amounted to EUR 1,485 million (2013: EUR 1,495 million) at the level of BAWAG Holding, EUR 1,205 million (2013: EUR 1,337 million) at the level of BAWAG P.S.K., EUR 91 million (2013: EUR 65 million) at the level of members of the tax group included in the consolidated financial statements and EUR 67 million (2013: EUR 75 million) at the level of other companies included in the consolidated financial statements, for a total of EUR 2,848 million (2013: EUR 2,971 million).

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11 | Cash reserves

in EUR million	31.12.2014	31.12.2013
Cash on hand	335	281
Balances at central banks	349	200
Cash reserves	**684**	**481**

12 | Financial assets designated at fair value through profit or loss

in EUR million	31.12.2014	31.12.2013
Bonds and other fixed income securities	264	316
Shares and other variable rate securities	7	40
Loans and advances to customers	179	397
Financial assets designated at fair value through profit or loss	**450**	**753**

The category Financial assets designated at fair value through profit or loss contains all financial instruments that are carried at their fair value through profit or loss because the fair value option defined in IAS 39 has been exercised for them. Further information on the fair value option can be found in Note 1.

The maximum credit risk of loans and advances to customers equals book value.

13 | Available-for-sale financial assets

in EUR million	31.12.2014	31.12.2013
Debt instruments	**3,757**	**5,028**
Bonds and other fixed income securities	3,757	5,028
Public sector debt instruments	623	806
Bonds of other issuers	3,134	4,222
Equity investments	**102**	**126**
Recognized at cost		
Investments in non-consolidated subsidiaries	18	23
Interests in associates	46	62
Other shareholdings	38	41
Available-for-sale financial assets	**3,859**	**5,154**

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

Associates not accounted for using the equity method due to immateriality

in EUR million	31.12.2014	31.12.2013
Cumulated assets	551	833
Cumulated equity	80	124
Cumulated net profit	15	27

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG Holding as of 31 December 2014 were being prepared, financial statements as of 31 December 2013 were available for the majority of the respective entities (prior year: 31 December 2012).

From an economic point of view, we would like to note that the table above does not take the economic share invested into consideration. The average economic share is 33%.

For further details, please refer to Note 37 Related parties.

14 | Held-to-maturity financial investments

in EUR million	31.12.2014	31.12.2013
Debt instruments	**2,042**	**773**
Bonds and other fixed income securities	2,042	773
Public sector debt instruments	565	373
Bonds of other issuers	1,477	400
Held-to-maturity financial investments	**2,042**	**773**

The increase of held-to-maturity financial assets is mainly driven by new business. Additionally, during the first quarter of 2014, BAWAG Holding reclassified a portion of its available-for-sale financial assets (carrying amount decreased by EUR 323 million, fair value decreased by EUR 323 million) as held-to-maturity investments (carrying amount increased by EUR 323 million, fair value increased by EUR 323 million) due to a change in its intention to hold the securities.

15 | Financial assets held for trading

in EUR million	31.12.2014	31.12.2013
Derivatives in trading book	**404**	**378**
Foreign currency derivatives	41	65
Interest rate derivatives	363	313
Derivatives in banking book	**759**	**703**
Foreign currency derivatives	58	68
Interest rate derivatives	698	630
Credit related derivatives	3	5
Financial assets held for trading	**1,163**	**1,081**

16 | Loans and receivables

The following breakdown depicts the composition of the item Loans and receivables. The financial assets in this category are recognized at amortized cost.

					31.12.2014
in EUR 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**
Securities	**1,983**	**–**	**–**	**–**	**1,983**
Public sector debt instruments	97	–	–	–	97
Debt instruments of other issuers	1,886	–	–	–	1,886
Receivables from credit institutions	**1,518**	**–**	**–**	**–**	**1,518**
Receivables from customers	**21,441**	**616**	**(236)**	**(42)**	**21,779**
Corporates and other customers	14,044	358	(63)	–	14,339
Retail	7,319	258	(173)	(11)	7,393
Central governments	78	–	–	–	78
IBNR portfolio provision[1)]	**–**	**–**	**–**	**(31)**	**(31)**
Total	**24,942**	**616**	**(236)**	**(42)**	**25,280**

1) Allowance for incurred but not reported losses.

in EUR 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
					31.12.2013
Securities	**2,485**	**–**	**–**	**–**	**2,485**
Public sector debt instruments	99	–	–	–	99
Debt instruments of other issuers	2,386	–	–	–	2,386
Receivables from credit institutions	**3,790**	**6**	**(5)**	**–**	**3,791**
Receivables from customers	**20,580**	**754**	**(270)**	**(84)**	**20,980**
Corporates and other customers	13,549	495	(155)	(1)	13,888
Retail	6,943	259	(115)	(50)	7,037
Central governments	88	–	–	–	88
IBNR portfolio provision[1)]	**–**	**–**	**–**	**(33)**	**(33)**
Total	**26,855**	**760**	**(275)**	**(84)**	**27,256**

1) Allowance for incurred but not reported losses.

The Receivables from customers are broken down into the following receivables classes.

The category Central governments includes receivables from central governments, primarily from the Republic of Austria in the case of BAWAG Holding Group.

The Corporates category includes larger enterprises with an exposure in excess of EUR 1 million or revenue of over EUR 50 million, and special financing agreements (project finance). Other customers cover public sector entities, churches and religious groups, political parties, associations and securities trading houses without a banking license.

The Retail category covers receivables from retail banking. This segment comprises employees and small and medium-sized enterprises with an exposure of less than EUR 1 million or revenue of less than EUR 50 million.

The IBNR portfolio provision represents a provision for losses incurred but not detected yet.

The following breakdown depicts the composition of the item Loans and receivables according to the Group's segments.

in EUR 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
					31.12.2014
Retail Banking and Small Business	9,240	237	(158)	(11)	9,308
Corporate Lending and Investments	13,089	93	(67)	0	13,115
Treasury Services and Markets	959	0	0	0	959
Corporate Center	1,654	286	(11)	(31)	1,898
Total	**24,942**	**616**	**(236)**	**(42)**	**25,280**

in EUR 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
					31.12.2013
Retail Banking and Small Business	9,090	234	(103)	(31)	9,190
Corporate Lending and Investments	11,742	229	(163)	0	11,807
Treasury Services and Markets	775	2	(2)	0	775
Corporate Center	5,248	295	(7)	(53)	5,484
Total	**26,855**	**760**	**(275)**	**(84)**	**27,256**

Reclassifications

BAWAG Holding Group transferred available-for-sale financial assets to the Statement of Financial Position item Loans and receivables at their fair values in the amount of EUR 1,897 million as of 1 June 2010.

These reclassified assets are private placements and credit surrogates without derivative components. BAWAG Holding Group is of the opinion that the amortized cost of the reclassified assets offers relevant information for readers of the financial report.

As of 31 December 2014, the carrying amount of these reclassified assets amounted to EUR 68 million (2013: EUR 909 million). Their fair value amounted to EUR 68 million (2013: EUR 904 million). The decline in comparison to the previous year results primarily from redemptions.

As of 31 December 2014, an AFS reserve in the amount of EUR 1 million (2013: plus EUR 1 million) was recognized for reclassified financial assets. If the assets had not been reclassified, unrealized fair value changes in the amount of EUR 0 million (2013: minus EUR 5 million) would have been recognized in Other comprehensive income (in the AFS reserve) for available-for-sale financial assets.

After reclassification, the financial assets in question continued to make the following contribution to the pre-tax profit of the respective year:

in EUR million	**2014**	**2013**
Interest income	2.5	11.9
Profits from disposals	6.1	7.0
Impairments	–	–

Changes in loan loss provisions

	Individual and collective loan loss provisions		**Loan loss provisions for incurred but not reported losses**		
in EUR million	**Receivables from credit institutions**	**Receivables from customers**	**Receivables from credit institutions**	**Receivables from customers**	**Total**
Balance as of 01.01.2014	**5**	**321**	**–**	**33**	**359**
Additions					
Provisions created through profit or loss	–	85	–	–	85
Disposals					
Changes in scope of consolidation	–	–	–	–	–
Used as intended	(3)	(134)	–	–	(137)
Provisions released through profit or loss	(2)	(25)	–	(2)	(29)
Reclassification	–	–	–	–	–
Balance as of 31.12.2014	**–**	**247**	**–**	**31**	**278**

in EUR million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2013	**17**	**618**	**–**	**31**	**666**
Additions					
Provisions created through profit or loss	–	93	–	2	95
Disposals					
Changes in scope of consolidation	–	–	–	–	–
Used as intended	(12)	(329)	–	–	(341)
Provisions released through profit or loss	–	(61)	–	–	(61)
Reclassification	**–**	**–**	**–**	**–**	**–**
Balance as of 31.12.2013	**5**	**321**	**–**	**33**	**359**

The loan loss provisions break down by region as follows:

in EUR million	31.12.2014	31.12.2013
Austria	**257**	**274**
Abroad	**21**	**85**
Western Europe	16	29
Central and Eastern Europe	5	56
Loan loss provisions	**278**	**359**

17 | Receivables from credit institutions and customers

The following table depicts the breakdown of receivables from credit institutions and customers by credit type.

Receivables from credit institutions – Breakdown by credit type

in EUR million	Designated at fair value through profit or loss		At amortized cost		Total	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Demand deposits	–	–	163	105	163	105
Time deposits	–	–	1,199	3,506	1,199	3,506
Loans	–	–	156	180	156	180
Receivables from credit institutions	**–**	**–**	**1,518**	**3,791**	**1,518**	**3,791**

Receivables from customers – Breakdown by credit type

in EUR million	Designated at fair value through profit or loss		At amortized cost		Total	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current accounts	**–**	**–**	**1,423**	**1,504**	**1,423**	**1,504**
Cash advances	**–**	**–**	**151**	**708**	**151**	**708**
Loans	**179**	**397**	**19,533**	**17,976**	**19,712**	**18,373**
One-off loans	179	397	19,460	17,881	19,639	18,278
Other	–	–	73	95	73	95
Finance leases	**–**	**–**	**672**	**792**	**672**	**792**
Receivables from customers	**179**	**397**	**21,779**	**20,980**	**21,958**	**21,377**

18 | Asset maturities

The following table contains a breakdown of financial assets (excl. equity investments) by remaining period to maturity. Assets without a defined maturity are classified as "Up to 3 months."

Financial assets – Breakdown by remaining period to maturity 2014

					31.12.2014
in EUR million	**Up to 3 months**	**3 months up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Financial assets designated at fair value through profit or loss					
Receivables from customers	4	68	46	61	**179**
Bonds and other fixed income securities	21	50	147	46	**264**
Available-for-sale financial assets					
Bonds and other fixed income securities	176	366	2,310	905	**3,757**
Held-to-maturity investments					
Bonds and other fixed income securities	–	79	1,046	917	**2,042**
Loans and receivables					
Receivables from customers	2,007	1,449	8,168	10,155	**21,779**
Receivables from credit institutions	1,306	72	8	132	1,518
Bonds and other fixed income securities	–	153	1,317	513	1,983
Total	**3,514**	**2,237**	**13,042**	**12,729**	**31,522**

Financial assets – Breakdown by remaining period to maturity 2013

					31.12.2013
in EUR million	**Up to 3 months**	**3 months up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Financial assets designated at fair value through profit or loss					
Receivables from customers	–	231	63	103	**397**
Bonds and other fixed income securities	5	46	247	18	**316**
Available-for-sale financial assets					
Bonds and other fixed income securities	274	871	3,067	816	**5,028**
Held-to-maturity investments					
Bonds and other fixed income securities	58	27	302	387	**774**
Loans and receivables					
Receivables from customers	2,746	1,546	7,075	9,613	**20,980**
Receivables from credit institutions	3,642	5	23	121	3,791
Bonds and other fixed income securities	–	264	1,247	974	2,485
Total	**6,725**	**2,990**	**12,024**	**12,032**	**33,771**

19 | Property, plant and equipment

Changes in property, plant and equipment 2014

in EUR million	Carrying amount 31.12.2013	Acquisition cost 01.01.2014	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2014	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**85**	**507**	**–**	**–**	**–**	**14**	**(78)**	**(150)**	**(209)**	**84**	**(12)**
Land and buildings used by the enterprise for its own operations	23	74	–	–	–	–	(21)	–	(31)	22	(1)
Investment properties	4	31	–	–	–	–	(6)	–	(22)	3	–
Office furniture and equipment	57	400	–	–	–	14	(51)	(149)	(156)	58	(11)
Plant under construction	1	2	–	–	–	–	–	(1)	–	1	–

Changes in property, plant and equipment 2013

in EUR million	Carrying amount 31.12.2012	Acquisition cost 01.01.2013	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2013	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**181**	**698**	**(2)**	**2**	**–**	**19**	**(208)**	**–**	**(422)**	**85**	**(19)**
Land and buildings used by the enterprise for its own operations	117	215	–	–	–	–	(141)	–	(51)	23	(3)
Investment properties	6	36	–	–	–	–	(5)	–	(27)	4	–
Office furniture and equipment	58	446	(2)	2	–	18	(62)	–	(343)	57	(16)
Plant under construction	–	1	–	–	–	1	–	–	(1)	1	–

No impairments have been recognized in profit or loss in the current financial year (2013: EUR 0.1 million).

20 | Goodwill, Brand name and customer relationships, and Software and other intangible assets

The brand name "BAWAG P.S.K." with a book value of EUR 42 million (2013: EUR 42 million) and customer relationships with a total book value of EUR 132 million (2013: EUR 149 million) are the Group's most important intangible non-current assets. The remaining average useful life of the customer relationships is 15 years.

Of the total carrying amount for all intangible non-current assets, EUR 30 million (2013: EUR 34 million) can be attributed to Allegro projects (BAWAG P.S.K.'s core banking system) carried out in this context. Allegro's remaining average useful life is 9 years.

Changes in Goodwill, Brand name and customer relationships and Software and other intangible assets 2014

in EUR million	Carrying amount 31.12.2013	Acquisition cost 01.01.2014	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative amortization	Additions	Disposals	Reallocations	Write-downs cumulative	Reclassification to non-current assets and disposal groups classified as held for sale	Carrying amount 31.12.2014	Amortization (-), impairments (+) and reversal of impairments (+) Financial year
Goodwill	**116**	**776**	**–**	**–**	**–**	**–**	**–**	**(660)**	**(58)**	**58**	**–**
Brand name and customer relationships	**191**	**410**	**–**	**–**	**–**	**–**	**–**	**(236)**	**–**	**174**	**(17)**
Software and other intangible assets	**82**	**308**	**–**	**–**	**35**	**(138)**	**150**	**(253)**	**–**	**102**	**(18)**
Software and other intangible non-current assets	66	271	–	–	31	(136)	156	(234)	–	88	(17)
Thereof purchased	66	195	–	–	27	(14)	156	(280)	–	84	(17)
Thereof internally generated	–	76	–	–	4	(122)	–	46	–	4	–
Intangible non-current assets in development	6	8	–	–	3	–	(6)	(2)	–	3	–
Thereof purchased	6	8	–	–	2	–	(6)	(2)	–	2	–
Thereof internally generated	–	–	–	–	1	–	–	–	–	1	–
Rights and redemption payments	11	29	–	–	1	(2)	–	(17)	–	11	(1)

Changes in Goodwill, Brand name and customer relationships and Software and other intangible assets 2013

in EUR million	Carrying amount 31.12.2012	Acquisition cost 01.01.2013	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative amortization	Additions	Disposals	Reallocations	Write-downs cumulative	Reclassification to non-current assets and disposal groups classified as held for sale	Carrying amount 31.12.2013	Amortization (-), impairments (+) and reversal of impairments (+) Financial year
Goodwill	**116**	**776**	**–**	**–**	**–**	**–**	**–**	**(660)**	**–**	**116**	**–**
Brand name and customer relationships	**207**	**410**	**–**	**–**	**–**	**–**	**–**	**(219)**		**191**	**(16)**
Software and other intangible assets	**113**	**309**	**(2)**	**2**	**27**	**(26)**	**–**	**(225)**	**–**	**82**	**(36)**
Software and other intangible non-current assets	105	280	(2)	2	16	(25)	2	(205)	–	66	(35)
Thereof purchased	78	186	(2)	2	16	(7)	2	(129)	–	66	(26)
Thereof internally generated	27	94	–	–	–	(18)	–	(76)	–	–	(9)
Intangible non-current assets in development	2	4	–	–	6	–	(2)	(2)	–	6	–
Thereof purchased	2	4	–	–	6	–	(2)	(2)	–	6	–
Rights and redemption payments	6	25	–	–	5	(1)	–	(18)	–	11	(1)

No impairments have been recognized in profit or loss in the current financial year (2013: EUR 2 million). No reversals of impairments have been recognized in the current financial year and in the prior year.

Impairment testing for cash generating units with goodwill

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

in EUR million	**31.12.2014**	**31.12.2013**
BAWAG P.S.K. INVEST GmbH	–	58
easybank AG, Vienna	58	58
Goodwill	**58**	**116**

Since BAWAG P.S.K. INVEST GmbH is classified as held for sale according to IFRS 5 as of 31 December 2014, the impairment test for its goodwill was based on the sale price less disposal costs. In the previous year, the recoverable amount for the CGU BAWAG P.S.K. INVEST GmbH was based on the value in use, which was estimated using discounted cash flows.

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

in%	**2014**	**2013**
Discount rate	10.7%	11.1%
Sustainable growth rate	1.0%	1.0%
Planned profit growth rate (average for the next five years)	5.3%	20.2%

The discount rate is before taxes and was estimated based on average equity returns in the sector. This discount rate was calculated based on the pre-tax interest rate required in IAS 36, taking into account the substantial tax loss carryforwards of BAWAG Holding Group. The risk-free interest rate used is the yield on government bonds with a remaining term to maturity of 30 years published by the German central bank. This discount rate is adjusted by applying a risk premium that reflects the higher general risk associated with an equity investment and the specific risk of the individual cash generating unit.

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make.

Sensitivity Analysis as of 31.12.2014

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an increase in the discount rate or a decline in growth after 2015 could occur without the fair value of the cash generating units sinking below the carrying value (equity plus goodwill).

	Change in discount rate (in pts)	**Change in growth after 2015 (in %)**
easybank AG, Vienna	2,263	<(100)%

Sensitivity Analysis as of 31.12.2013

	Change in discount rate (in pts)	**Change in growth after 2014 (in %)**
BAWAG P.S.K. INVEST GmbH	389	(66.15)%
easybank AG, Vienna	1,808	<(100)%

21 | Tax assets

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

Net deferred tax assets on Statement of Financial Position

in EUR million	**31.12.2014**	**31.12.2013**
Financial liabilities designated at fair value through profit or loss	39	28
Loans and receivables	121	32
Provisions	63	48
Tax loss carryforwards	253	242
Other	1	1
Deferred tax assets	**477**	**351**
Financial assets designated at fair value through profit or loss	18	12
Available-for-sale financial assets	60	58
Held-to-maturity investments	2	–
Assets held for trading	56	43
Hedging derivatives	88	3
Internally generated intangible assets	1	–
Other intangible assets	43	48
Property, plant and equipment	1	1
Other	15	–
Deferred tax liabilities	**284**	**165**
Net deferred tax assets on Statement of Financial Position	**193**	**186**

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

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 253 million (2013: EUR 242 million). The majority of the tax losses could be carried forward for an unlimited period. The untaxed portion of the liability reserve was EUR 372.9 million (2013: EUR 372.9 million).

As of 31 December 2014, unused tax losses amounted to EUR 1,485 million (2013: EUR 1,495 million) at the level of BAWAG Holding, EUR 1,205 million (2013: EUR 1,337 million) at the level of BAWAG P.S.K., EUR 91 million (2013: EUR 65 million) at the level of members of the tax group included in the consolidated financial statements and EUR 67 million (2013: EUR 75 million) at the level of other companies included in the consolidated financial statements, for a total of EUR 2,848 million (2013: EUR 2,971 million).

22 | Other assets

in EUR million	**31.12.2014**	**31.12.2013**
Accruals	28	28
Leasing objects not in operation yet	11	9
Other items	61	236
Other assets	**100**	**273**

The other items include accounts relating to payment in the amount of EUR 35 million (2013: EUR 56 million) and miscellaneous other assets in the amount of EUR 37 million (2013: EUR 30 million). In 2013, the other items also included purchase price receivables from the sale of the Company building located at Georg-Coch-Platz 2, 1018 Vienna, in the amount of EUR 150 million, which were settled in January 2014.

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

in EUR million	31.12.2014	31.12.2013
Issued bonds, subordinated and supplementary capital	**1,675**	**2,968**
Issued bonds (own issues)	158	1,361
Subordinated capital	361	420
Supplementary capital	25	27
Short-term notes and non-listed private placements	1,131	1,160
Financial liabilities designated at fair value through profit or loss	**1,675**	**2,968**

The Issued bonds are listed issues. The decrease compared to the previous year was driven by the redemption of an own issue with a notional value of EUR 960 million in February 2014.

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

The carrying amount of the securities issued by BAWAG Holding Group and recognized at their fair value as of 31 December 2014 was EUR 132 million above their repayment amount (2013: EUR 112 million above the repayment amount).

24 | Financial liabilities held for trading

in EUR million	31.12.2014	31.12.2013
Derivatives trading book	**403**	**342**
Foreign currency derivatives	188	251
Interest rate derivatives	215	91
Derivatives banking book	**771**	**956**
Foreign currency derivatives	316	498
Interest rate derivatives	452	452
Credit related derivatives	3	6
Financial liabilities held for trading	**1,174**	**1,298**

25 | Financial liabilities measured at amortized cost

in EUR million	31.12.2014	31.12.2013
Deposits from banks	**2,420**	**1,646**
Deposits from customers	**21,127**	**22,011**
Savings deposits – fixed interest rates	3,439	5,301
Savings deposits – variable interest rates	4,321	4,132
Deposit accounts – variable interest rates	5,344	5,147
Current accounts – Retail	5,654	4,912
Current accounts – Corporates	1,806	1,970
Other deposits[1)]	563	549
Issued bonds, subordinated and supplementary capital	**4,438**	**4,561**
Issued bonds	2,024	2,068
Subordinated capital	500	489
Supplementary capital	107	118
Short-term notes and unlisted private placements	1,807	1,886
Financial liabilities at amortized cost	**27,985**	**28,218**

1) Primarily time deposits.

The bonds issued by BAWAG Holding Group were listed securities.

26 | Issued bonds, subordinated and supplementary capital

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

	Recognized at fair value		Recognized at amortized cost		Total	
in EUR million	2014	2013	2014	2013	2014	2013
Issued bonds (own issues)	158	1,361	2,024	2,068	2,182	3,429
Subordinated capital	361	420	500	489	861	909
Supplementary capital	25	27	107	118	132	145
Short-term notes and unlisted private placements	1,131	1,160	1,807	1,886	2,938	3,046
Total	**1,675**	**2,968**	**4,438**	**4,561**	**6,113**	**7,529**

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

ISIN	Type	Currency	Nominal value in EUR million	Type of interest payment	Coupon	Maturity date
XS0562155902	Covered	EUR	500	Fixed	2.625%	26.11.2015
XS0830444039	Covered	EUR	500	Fixed	1.875%	18.09.2019
XS0115996646	Senior Unsecured	EUR	350	Variable	3M EURIBOR -0.1%	25.08.2015
XS0987169637	Lower Tier II	EUR	300	Fixed	8.125%	30.10.2023
AT0000A0JR13	Senior Unsecured	EUR	246	Fixed	3.375%	09.08.2015
AT0000A0Y1R8	Residential building bond	EUR	244	Fixed	2.625%	18.01.2028
CH0011261168	Lower Tier II	CHF	208	Fixed	4.500%	16.10.2015

Hybrid Capital

BAWAG Capital Finance (Jersey) Limited exercised its call option in relation to Perpetual Non-Cumulative Non-Voting Fixed/Floating Rate Preference Shares issued in 2000. After the redemption of all preference shares in July 2014, BAWAG Capital Finance (Jersey) Limited was deleted from the companies register effective 24 September 2014. There was no extraordinary result from this transaction recognized in the consolidated annual financial statements.

As of the reporting date, BAWAG Holding Group had issued one hybrid capital issue (BCF II). The hybrid capital issue is reported as a liability according to IFRS and is reported as subordinated capital in the overview above. This issue is included in the amount of 80% in Additional Tier I capital and in the amount of 20% in Tier II for the calculation of the Group own funds according to CRR in 2014.

No changes in the terms of BCF II are provided for during their tenor. Only the issuer has an ordinary right of redemption. The calling dates and current interest rates of the note left after the buyback are as follows:

– BCF II: EUR 83 million nominal value (31 December 2013: EUR 83 million), callable quarterly (shown in Financial liabilities measured at amortized cost), fixed interest rate 7.125%.

27 | Deposits from customers

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

Deposits from customers – Breakdown by product class and business sector

	Financial assets designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Savings deposits	**–**	**–**	**7,760**	**9,433**	**7,760**	**9,433**
Savings accounts	–	–	4,099	3,863	4,099	3,863
Fixed-term investment savings accounts	–	–	3,484	5,327	3,484	5,327
Savings associations	–	–	177	243	177	243
Other deposits	**–**	**–**	**13,367**	**12,578**	**13,367**	**12,578**
Retail	–	–	8,854	8,305	8,854	8,305
Corporates	–	–	3,811	3,533	3,811	3,533
Non credit institutions	–	–	354	513	354	513
Central governments	–	–	348	227	348	227
Deposits from customers	**–**	**–**	**21,127**	**22,011**	**21,127**	**22,011**

28 | Liabilities maturities

The following tables depict a breakdown of the financial liabilities by legal maturity.

Financial liabilities – Breakdown by remaining period to maturity 2014

					31.12.2014
in EUR million	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss					
Bonds	–	5	120	33	**158**
Subordinated capital	–	230	14	117	**361**
Supplementary capital	–	–	25	–	**25**
Short-term notes and non-listed private placements	22	85	436	588	**1,131**
Liabilities at amortized cost					
Deposits from customers	15,828	3,697	1,411	191	21,127
Deposits from banks	738	129	1,114	439	**2,420**
Bonds	44	1,192	736	52	**2,024**
Subordinated capital	–	–	–	500	**500**
Supplementary capital	11	89	7	–	**107**
Short-term notes and non-listed private placements	5	51	294	1,457	**1,807**
Total	**16,648**	**5,478**	**4,157**	**3,377**	**29,660**

Financial liabilities – Breakdown by remaining period to maturity 2013

					31.12.2013
in EUR million	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss					
Bonds	928	268	105	60	**1,361**
Subordinated capital	27	–	242	151	**420**
Supplementary capital	–	–	27	–	**27**
Short-term notes and non-listed private placements	–	50	308	802	**1,160**
Liabilities at amortized cost					
Deposits from customers	13,281	3,019	2,398	3,313	22,011
Deposits from banks	985	20	377	264	**1,646**
Bonds	15	–	1,530	523	**2,068**
Subordinated capital	–	–	–	489	**489**
Supplementary capital	–	–	107	11	**118**
Short-term notes and non-listed private placements	57	70	336	1,423	**1,886**
Total	**15,293**	**3,427**	**5,430**	**7,036**	**31,186**

29 | Provisions

in EUR million	31.12.2014	31.12.2013
Provisions for social capital	489	435
Thereof for severance payments	98	98
Thereof for pension provisions	359	303
Thereof for jubilee benefits	32	34
Anticipated losses from pending business	27	31
Credit promises and guarantees	27	31
Other items including legal risks	6	37
Provisions	**522**	**503**

In 2013, the line item Other items including legal risks concerned primarily legal proceedings relating to Refco.

Provisions for social capital are long-term liabilities. The increase of pension provisions is due to the negative impact from the change of the interest rate to 2.05%. Provisions for anticipated losses on pending business in the amount of EUR 19 million and other risks including legal risks in the amount of EUR 3 million are expected to be used after more than twelve months.

Changes in social capital

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2014	**315**	**98**	**34**	**447**
Service cost	1	5	2	8
Interest cost	11	3	1	15
Actuarial gain/loss				
from demographic assumptions	(4)	1	(3)	(6)
from financial assumptions	64	6	1	71
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(15)	(9)	(3)	(27)
Other	(1)	(6)	–	(7)
Defined benefit obligation as of 31.12.2014	**371**	**98**	**32**	**501**
Fair value of plan assets	(12)	–	–	(12)
Provision as of 31.12.2014	**359**	**98**	**32**	**489**

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2013	**306**	**104**	**34**	**444**
Service cost	1	5	3	9
Interest cost	11	4	1	16
Actuarial gain/loss				
from demographic assumptions	2	(3)	(3)	(4)
from financial assumptions	10	3	1	14
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(15)	(11)	(2)	(28)
Other	–	(4)	–	(4)
Defined benefit obligation as of 31.12.2013	**315**	**98**	**34**	**447**
Fair value of plan assets	(12)	–	–	(12)
Provision as of 31.12.2013	**303**	**98**	**34**	**435**

At 31 December 2014, the weighted average duration was 15.26 years (2013: 13.95 years) for defined benefit obligations relating to pension plans and 12.09 years (2013: 12.06 years) for obligations arising from severance payments.

Assignable unit-linked pension fund assets

in EUR million	2014	2013
Pension fund assets as of 01.01.2014	**12**	**11**
Additions	–	1
Pension fund assets as of 31.12.2014	**12**	**12**

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

The Pension fund assets consist of:

in %	2014	2013
Bonds	77%	81%
Equities	14%	13%
Cash and cash equivalents	0%	1%
Other	9%	5%

Bonds issued by BAWAG Holding Group amount to 0.05% of plan assets.

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

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

- a strategic asset mix comprising 57% government bonds, 15% corporates, 14% equities and 14% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: government bonds: 28%–86%, corporates: 0%–25%, equities: 0%–20%, other investments: 0%–20%;
- interest rate risk is monitored and managed through active duration risk management of all fixed income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 30%.

BAWAG Holding Group expects that payments in the amount of EUR 0.3 million will have to be made to the pension fund in 2015.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2014 in the amount of EUR 469 million:

Sensitivity analysis as of 31 December 2014

	Provisions for post-employment benefits and severance payments	
in EUR million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	410	545
Future salary growth – 1 percentage point movement	544	410
Attrition – 1 percentage point movement	451	472
Future mortality – 1 percentage point movement (post-employment benefits only)	370	372

Sensitivity analysis as of 31 December 2013

	Provisions for post-employment benefits and severance payments	
in EUR million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	365	474
Future salary growth – 1 percentage point movement	474	364
Attrition – 1 percentage point movement	396	417
Future mortality – 1 percentage point movement (post-employment benefits only)	314	316

Changes in other provisions

in EUR million	Balance 01.01.2014	Added	Used	Released	Balance 31.12.2014
Other provisions	**68**	**3**	**(1)**	**(37)**	**33**
Anticipated losses from pending business	31	2	–	(6)	27
Other items	37	1	(1)	(31)	6

in EUR million	Balance 01.01.2013	Added	Used	Released	Balance 31.12.2013
Other provisions	**51**	**21**	**(3)**	**(1)**	**68**
Anticipated losses from pending business	14	20	(3)	–	31
Other items	37	1	–	(1)	37

30 | Tax liabilities

Provisions for Deferred Taxes

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

in EUR million	31.12.2014	31.12.2013
Financial assets designated at fair value through profit or loss	1	–
Available-for-sale financial assets	1	8
Other	2	3
Deferred tax liabilities	**4**	**11**
Net deferred tax liabilities on Statement of Financial Position	**4**	**11**

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to EUR 96 million (2013: EUR 231 million). IAS 12.39 stipulates that, in the case of temporary differences associated with investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will be reversed in the foreseeable future.

31 | Other obligations

in EUR million	31.12.2014	31.12.2013
Accounts relating to payment	228	197
Liabilities resulting from restructuring	120	142
Other liabilities	158	132
Accruals	6	8
Other obligations	**512**	**479**

32 | Disclosures in compliance with IFRS 5 – Assets in disposal groups and Obligations in disposal groups

According to IFRS 5, disposal groups consisting of assets and liabilities are to be classified as held for sale when the associated carrying amount stems primarily from a sale transaction and not from continued usage, and the sale is expected to be effected within twelve months. For this reason, the carrying amounts of the assets and liabilities of BAWAG P.S.K. INVEST GmbH are reported on the Consolidated Statement of Financial Position under the items Assets in disposal groups and Obligations in disposal groups. The following table shows a breakdown of these items.

The proceeds of sale exceed the carrying amount of the related net assets and, accordingly, no impairment losses were recognized on the reclassification as held for sale.

The segment "Retail Banking and Small Business" includes BAWAG P.S.K. INVEST GmbH.

in EUR million	2014
Assets in disposal groups	**68**
Goodwill	58
Financial assets designated at fair value through profit or loss	7
Other assets	3
Obligations in disposal groups	**6**
Provisions	2
Other obligations	4

33 | Hedging derivatives

in EUR million	31.12.2014	31.12.2013
Hedging derivatives in fair value hedges		
Positive market values	546	164
Negative market values	160	126

BAWAG Holding Group uses fair value hedge accounting to account for hedges of interest rate risk inherent in fixed-rate financial instruments. Hedging instruments are usually interest rate swaps. The hedged items are securities in the category Available-for-sale financial assets as well as the Group's own issues, savings accounts and loans to customers that are recognized at amortized cost.

	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
in EUR million	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Available-for-sale financial assets	**1,605**	**1,938**	**(89)**	**(69)**	**(2)**	**4**
Securities	1,605	1,938	(89)	(69)	(2)	4
Financial instruments recognized at amortized cost	**11,375**	**9,012**	**475**	**107**	**6**	**12**
Securities	163	180	(9)	(8)	–	–
Own issues	3,224	3,464	284	117	5	11
Savings deposits of customers	3,592	3,510	30	10	1	–
Loans to customers	305	305	(54)	(20)	(1)	–
Liabilities to customers	4,091	1,553	224	8	1	1
Total	**12,980**	**10,950**	**386**	**38**	**4**	**16**

The effects of changes in the value of the hedging instrument and the hedged item are shown under Note 4 Gains and losses on financial assets and liabilities.

34 | Equity

Share Capital

BAWAG Holding GmbH has fully paid in share capital of EUR 100 million which remained unchanged compared to the previous year.

Participation Capital

The Shareholder Meeting of BAWAG P.S.K. AG passed a resolution on 12 March 2014 approving the full redemption of the outstanding participation capital in the amount of EUR 350 million effective 13 March 2014. The Austrian Financial Market Authority (FMA) granted approval for the redemption of the remaining participation capital.

In addition, BAWAG P.S.K. AG paid a dividend of EUR 47.7 million for 2013 to the holders of the participation capital as well as a pro-rata dividend of EUR 6.8 million for the first quarter of 2014.

The participation capital was reported as non-controlling interests in BAWAG Holding's consolidated financial statements. Dividend disbursements for the participation capital are reported as appropriation of profits.

Shareholder's Contribution and Movements in Own Funds

Effective 11 March 2014, a capital contribution of EUR 125 million was made to BAWAG P.S.K. AG in the form of a grandparent capital contribution subscribed by existing shareholders.

By way of a resolution dated 31 July 2014, a dividend in the amount of EUR 3 million was paid to the shareholder of BAWAG Holding GmbH, Promontoria Sacher Holding N.V.

Non Controlling Interests

BAWAG Malta Bank Ltd. dissolved an investment structure (Rhein Limited, Bodensee Limited) with a minority shareholder after redeeming all securities recognized in Rhein Limited. Rhein Limited was liquidated with effect from 5 December 2014. Bodensee Ltd. was put into liquidation by way of a shareholder resolution dated 9 September 2014.

Liability Reserve (Haftrücklage)

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

Changes in other comprehensive income

in EUR million	Capital reserves	Retained reserves	AFS reserve	Foreign exchange differences	Actuarial gains/ losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2014	**(201.6)**	**509.8**	**8.1**	**–**	**(50.1)**	**266.2**	**10.2**	**276.4**
Release of capital reserves	(201.6)	201.6				–		–
Consolidated profit/loss	–	308.2	–	–	–	308.2	10.2	318.4
Income and expenses recognized directly in equity	**–**	**–**	**8.1**	**–**	**(50.1)**	**(42.0)**	**–**	**(42.0)**
Changes in AFS reserves	–	–	9.3	–	–	9.3	–	9.3
Income and expenses recognized directly in equity (before taxes)	–	–	9.3	–	–	9.3	–	9.3
Reclassified due to realized profit/loss (before taxes)	–	–	–	–	–	–	–	–
Share of other comprehensive income of associates accounted for using the equity method	–	–	1.5	–	–	1.5	–	1.5
Actuarial gains (losses) on defined benefit pension plans	–	–	–	–	(66.8)	(66.8)	–	(66.8)
Income taxes	–	–	(2.7)	–	16.7	14.0	–	14.0

in EUR million	Capital reserves	Retained reserves	AFS reserve	Foreign exchange differences	Actuarial gains/ losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2013	**(348.8)**	**499.6**	**(66.1)**	**(0.5)**	**(9.8)**	**74.4**	**50.9**	**125.3**
Release of capital reserves	(348.8)	348.8	–	–	–	–	–	–
Consolidated profit/loss	–	150.8	–	–	–	150.8	40.4	191.2
Income and expenses recognized directly in equity	**–**	**–**	**(66.1)**	**(0.5)**	**(9.8)**	**(76.4)**	**10.5**	**(65.9)**
Foreign exchange differences	–	–	–	(0.5)	–	(0.5)	–	(0.5)
Changes in AFS reserves	–	–	(93.1)	–	–	(93.1)	10.5	(82.6)
Income and expenses recognized directly in equity (before taxes)	–	–	(4.1)	–	–	(4.1)	10.5	6.4
Reclassified due to realized profit/loss (before taxes)	–	–	(89.0)	–	–	(89.0)	–	(89.0)
Share of other comprehensive income of associates accounted for using the equity method	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Actuarial gains (losses) on defined benefit pension plans	–	–	–	–	(13.1)	(13.1)	–	(13.1)
Income taxes	–	–	27.7	–	3.3	31.0	–	31.0

Deferred income taxes recognized in Other comprehensive income

in EUR million	Before taxes	Income taxes	After taxes	Before taxes	Income taxes	After taxes
	01.01.–31.12.2014			**01.01.–31.12.2013**		
AFS reserve	10.8	(2.7)	8.1	(93.8)	27.7	(66.1)
Actuarial gains (losses) on defined benefit pension plans	(66.8)	16.7	(50.1)	(13.1)	3.3	(9.8)
Income and expenses recognized directly in equity	**(56.0)**	**14.0**	**(42.0)**	**(106.9)**	**31.0**	**(75.9)**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2014.

The segment reporting presents the results of the operating business segments of BAWAG Holding 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 Group's segment report used to assess the performance of and to allocate resources to the segments is based on BAWAG P.S.K. Group and does not include BAWAG Holding GmbH and revaluations recognized on BAWAG Holding level. Therefore, income and expenses recognized on BAWAG Holding level are shown in the column "reconciliation".

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. This method was refined in 2014, and funding costs are now more accurately reflected in the internal funds transfer pricing. The interest rate risk is managed actively through asset and liability management, and the results of this are reported by the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective units of the Company on the basis of where they are incurred. The overhead costs are assigned to the individual segments according to an allocation factor. Furthermore, trading book derivatives – as non-core legacy positions – were reallocated from Treasury Services and Markets to Corporate Center/ALM.

As of January 2014, certain changes in the business segment reporting were made to reflect the adjustments in the overall strategy, developments and business management at BAWAG Holding. The prior year's figures have been adjusted accordingly. A summary of the major changes and rationale are described below:

Since 1 January 2014, BAWAG Holding has been managed in accordance with the following four main business and reporting segments, while the responsibilities for the operational decisions remain unchanged.

- **Retail Banking and Small Business –** includes savings, payment, card and lending activities for our private customers, investment and insurance services, small business lending and financial services including our social housing activities, as well as leasing solutions and products.
- **Corporate Lending and Investments –** includes our Austrian corporate lending activities and other fee-driven financial services as well as our international corporate and real estate investment activities.
- **Treasury Services and Markets –** includes the activities associated with providing trading and investment services for our Group treasury activities including certain asset-liability management activities and the investment results of our portfolio of financial securities.
- **Corporate Center –** includes unallocated items related to Group support functions for the entire Group and certain activities and results related to subsidiary and participation holdings as well as the results of our liquidity portfolio.

Our segments are aligned with our core business strategies as well as our objective of providing transparent reporting of our business unit and Group-wide results, including minimizing financial impacts and activities within the Corporate Center.

The segments in detail:

in EUR million	Retail Banking and Small Business 2014	Retail Banking and Small Business 2013	Corporate Lending and Investments 2014	Corporate Lending and Investments 2013	Treasury Services and Markets 2014	Treasury Services and Markets 2013	Corporate Center 2014	Corporate Center 2013	Reconciliation 2014	Reconciliation 2013	Total 2014	Total 2013
Net interest income	398.0	343.6	212.6	200.6	52.6	49.6	28.8	(13.7)	(1.8)	(0.9)	690.2	579.2
Net fee and commission income	159.8	147.1	42.4	51.5	0.0	0.0	(4.5)	(10.5)	0.1	(0.1)	197.8	188.0
Core revenues	**557.8**	**490.7**	**255.0**	**252.1**	**52.6**	**49.6**	**24.3**	**(24.2)**	**(1.7)**	**(1.0)**	**888.0**	**767.2**
Gains and losses on financial instruments	0.8	35.0	3.4	10.1	24.8	38.8	6.8	132.2	0.2	(18.1)	36.0	198.0
Other operating income and expenses	3.3	2.6	0.0	0.0	0.0	0.0	11.0	47.0	0.0	0.1	14.3	49.7
Operating income	**561.9**	**528.3**	**258.4**	**262.3**	**77.4**	**88.4**	**42.1**	**155.0**	**(1.5)**	**(19.1)**	**938.3**	**1,014.9**
Operating expenses	**(363.5)**	**(427.6)**	**(80.9)**	**(91.9)**	**(21.6)**	**(35.6)**	**(33.2)**	**(125.7)**	**(22.1)**	**(19.0)**	**(521.3)**	**(699.8)**
Bank levy	–	–	–	–	–	–	(24.6)	(25.3)	0.0	0.0	(24.6)	(25.3)
Total risk costs	(41.5)	(23.5)	(34.5)	(53.9)	0.0	0.0	1.6	(20.9)	(2.7)	0.3	(77.1)	(98.0)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	0.9	(0.9)	0.0	0.0	0.9	(0.9)
Profit before tax	**156.9**	**77.2**	**143.0**	**116.5**	**55.8**	**52.8**	**(13.2)**	**(17.7)**	**(26.3)**	**(37.9)**	**316.2**	**190.9**
Income taxes	–	–	–	–	–	–	(8.8)	1.7	8.3	7.3	(0.5)	9.0
Profit after tax	**156.9**	**77.2**	**143.0**	**116.5**	**55.8**	**52.8**	**(22.0)**	**(16.0)**	**(18.0)**	**(30.6)**	**315.7**	**199.9**
Non-controlling interests	–	–	–	–	–	–	(0.6)	(1.4)	8.1	50.5	7.5	49.1
Net profit	**156.9**	**77.2**	**143.0**	**116.5**	**55.8**	**52.8**	**(22.7)**	**(17.4)**	**(24.8)**	**(78.3)**	**308.2**	**150.8**
Business volumes												
Assets	9,579	9,525	13,885	12,938	5,755	5,124	5,432	8,815	203	223	34,854	36,625
Refinancing of business	18,746	19,559	3,230	3,289	0	448	12,675	13,106	203	223	34,854	36,625
Risk-weighted assets	3,420	3,102	7,643	6,993	2,172	1,407	3,557	4,499	19	0	16,811	16,001

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

in EUR million	2014	2013
Gains and losses on financial assets and liabilities according to segment report	36.0	198.0
Gains and losses on financial assets attributable to non-controlling interests	2.7	(8.7)
Gains and losses on financial assets and liabilities according to Consolidated Profit or Loss Statement	**38.7**	**189.3**

in EUR million	2014	2013
Other operating income and expenses according to segment report	14.3	49.7
Bank levy	(24.6)	(25.3)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(10.3)**	**24.4**

in EUR million	2014	2013
Profit before tax according to segment report	316.2	190.9
Gains and losses on financial assets attributable to non-controlling interests	2.7	(8.7)
Profit before tax according to Consolidated Profit or Loss Statement	**318.9**	**182.2**

CAPITAL MANAGEMENT

The capital management system employed by BAWAG Holding Group is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations and the economic capital management approach related to the Internal Capital Adequacy Assessment Process (ICAAP).

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

As part of the SREP (Supervisory Review and Evaluation Process) within the JRAD (Joint Risk Assessment and Decision) framework and in accordance with the Comprehensive Bank Assessment of the ECB, the overall bank risk management process of BAWAG P.S.K. Group was reviewed in detail. As a result, it was concluded that the level of own funds held within BAWAG Holding Group and BAWAG P.S.K. Group with respect to its financial situation and risk profile is adequate. The official notification also includes the specification of a SREP (Supervisory Review and Evaluation Process) ratio, which requires the maintenance of a minimum overall capital ratio in pillar 1 to meet the requirements for pillar 2.

In addition to the minimum capital ratios required by the regulators, BAWAG P.S.K. Group defines early warning levels in its recovery plan as well as the recovery phase and corresponding processes. The warning levels refer to liquidity and regulatory capital figures. The recovery plan was prepared within the framework of BSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Resolution and Recovery Act").

BAWAG Holding Group and BAWAG P.S.K. Group constantly monitor their compliance with the warning levels and therefore at the same time with the stipulated own funds ratios, i.e. total capital, on the basis of the notifications of BAWAG Holding Group sent to Oesterreichische Nationalbank (the Austrian national bank) and on the basis of current business developments.

The budgeted business volumes are also compared with the expected movements in the eligible own funds at the beginning of every financial year. In addition to the riskweighted assets, the calculation also includes the own funds requirement for the securities trading book (using an internal value-at-risk model including stress) and the own funds requirement to cover operational risk. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

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

BAWAG Holding Group manages its capital position based on a fully loaded CRR environment and therefore without the benefit of any transitional capital components. The Capital Management Team gives recommendations to the Managing Board for increasing the own funds coverage when necessary and reports to the Enterprise Risk Meeting once a month.

The following table shows the breakdown of the Group's own funds applying transitional rules and its own funds requirement as per 31 December 2014 pursuant to CRR applying IFRS figures and the CRR scope of consolidation (BAWAG Holding and Promontoria Sacher Holding N.V. Group) and as per 31 December 2013 pursuant to BWG based on BAWAG Holding Group. Since 2014, regulatory reporting has been done on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group.

in EUR million	**Promontoria 31.12.2014**	**BAWAG Holding 31.12.2014**	**BAWAG Holding 31.12.2013**
Share capital	**0**	**100**	**100**
Reserves (including funds for general banking risk) after deduction of intangible assets	2,463	2,438	1,839
Other comprehensive income	20	20	n/a
Less shareholdings held for investment purposes, IRB risk provision shortfalls	(11)	(11)	(45)
Minorities	0	0	404
Hybrid capital[1]	n/a	n/a	142
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains	(148)	(148)	n/a
Excess of deduction from AT1 items over AT1 capital	(235)	(235)	n/a
Common Equity Tier I (CRR) / Core Tier I (BWG)	**2,089**	**2,164**	**2,440**
Hybrid capital[1]	68	68	n/a
IRB risk provision shortfall	(21)	(21)	n/a
Deduction of intangible assets	(282)	(282)	n/a
Excess of deduction from AT1 items over AT1 capital	235	235	n/a
Additional Tier I (CRR)	**0**	**0**	**n/a**
Tier I (CRR/BWG)	**2,089**	**2,164**	**2,440**
Supplementary and subordinated debt capital	533	533	582
Hybrid capital[1]	17	17	n/a
Excess IRB risk provisions[2]	21	21	n/a
Less shareholdings held for investment purposes, IRB risk provision shortfalls	(43)	(43)	(45)
Total Tier II (CRR/BWG)	**528**	**528**	**537**
Tier III[3]	**n/a**	**n/a**	**10**
Own funds	**2,617**	**2,692**	**2,987**

1) According to CRR, hybrid capital is partially eligible among Additional Tier I and Tier II.
2) According to BWG, eligible in Tier I as offsetting item under item IRB risk provision shortfalls.
3) According to CRR, Tier III capital is not included in own funds.

Capital requirements based on a transitional basis

in EUR million	**Promontoria 31.12.2014**	**BAWAG Holding 31.12.2014**	**BAWAG Holding 31.12.2013**
Credit risk	1,195	1,195	1,141
Market risk	8	8	10
Operational risk	129	129	129
Capital requirements	**1,332**	**1,332**	**1,280**

Supplemental information on a fully loaded basis

	Promontoria 31.12.2014	BAWAG Holding 31.12.2014	BAWAG Holding 31.12.2013
Common Equity Tier I capital ratio based on total risk	11.8%	12.2%	n/a
Total capital ratio based on total risk	15.4%	15.9%	n/a

Key figures according to CRR including its transitional rules

	Promontoria 31.12.2014	BAWAG Holding 31.12.2014	BAWAG Holding 31.12.2013
Common Equity Tier I capital ratio based on total risk	12.5%	13.0%	15.3%
Total capital ratio based on total risk	15.7%	16.2%	18.7%

During the financial year 2014, BAWAG Holding Group always complied with the imposed capital requirement of 4% for Common Equity Tier I ratio and of 8% for Total capital ratio according to Article 1 of the Austrian CRR Supplementary Regulation.

FURTHER DISCLOSURES REQUIRED BY IFRS

35 | Fair value

The following table depicts the fair values of the Statement of Financial Position items. These are the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. If market prices were available on a stock exchange or other functioning market, they were used.

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 Holding Group), structured credit transactions for which there are no active markets, and, in individual cases, other current financial assets in the Group'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 measurement of fair value of customer business was carried out by applying credit spreads for each customer category. The blanket credit spreads are applied for the following customer categories: credit institutions, commercial customers, public sector and private customers, for which mortgage loans and other loans are considered separately. The credit spreads in customer business are derived by analyzing both external data (market developments and OeNB statistics) and internal default statistics.

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), 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.

In 2014, the portion of change in fair values of securities issued by BAWAG Holding Group accounted for solely by changes in our credit spreads was minus EUR 7.0 million (minus EUR 2.3 million as of 31 December 2013). As of 31 December 2014, the cumulative fair value change resulting from changes in our credit rating amounted to EUR 33.1 million (EUR 36.8 million as of 31 December 2013).

A one basis point narrowing of the credit spread is expected to change their valuation by minus EUR 0.4 million (minus EUR 0.5 million as of 31 December 2013).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in our credit rating amounted to plus EUR 2.8 million as of 31 December 2014. The respective annual fair value change also amounted to plus EUR 2.8 million. (plus EUR 0.6 million as of 31 December 2013).

A one basis point narrowing of the credit spread is expected to change their valuation by plus EUR 0.12 million (plus EUR 0.12 million as of 31 December 2013).

Fair values of selected items on the Statement of Financial Position

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

in EUR million	Carrying amount 31.12.2014	Fair value 31.12.2014	Carrying amount 31.12.2013	Fair value 31.12.2013
Assets				
Cash reserves	684	684	481	481
Financial assets designated at fair value through profit or loss	450	450	753	753
Available-for-sale financial assets				
Recognized at fair value	3,757	3,757	5,028	5,028
Recognized at cost	102	n/a	126	n/a
Held-to-maturity investments	2,042	2,150	773	774
Assets held for trading	1,163	1,163	1,081	1,081
Loans and receivables	25,280	25,629	27,256	27,394
Hedging derivatives	546	546	164	164
Tangible non-current assets	84	n/a	85	n/a
Thereof investment properties	3	6	4	8
Intangible non-current assets	334	n/a	389	n/a
Other assets	344	n/a	489	n/a
Assets in disposal groups	68	n/a	–	n/a
Total assets	**34,854**		**36,625**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,675	1,675	2,968	2,968
Liabilities held for trading	1,174	1,174	1,298	1,298
Financial liabilities at amortized cost	27,985	28,304	28,218	28,473
Valuation adjustment on interest rate risk hedged portfolios	196	196	(2)	(2)
Hedging derivatives	160	160	126	126
Provisions	522	n/a	503	n/a
Other obligations	517	n/a	491	n/a
Obligations in disposal groups	6	n/a	–	n/a
Equity	2,619	n/a	2,230	n/a
Non-controlling interests	–	n/a	793	n/a
Total liabilities and equity	**34,854**		**36,625**	

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 here.

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:** The value is measured by using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices.

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

– **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. Loans and receivables and financial liabilities classified at amortized cost are valued using the discounted cash flow method using a spread adjusted swap curve;

– **Other:** This pertains to stakes in non-consolidated subsidiaries that are classified as available for sale.

					31.12.2014
in EUR million	**Level 1**	**Level 2**	**Level 3**	**Others[1]**	**Total**
Assets					
Financial assets designated at fair value through profit or loss	3	443	4	–	**450**
Available-for-sale financial assets	3,509	248	–	102	**3,859**
Held-to-maturity investments	2,141	9	–	–	**2,150**
Assets held for trading	–	1,163	–	–	**1,163**
Loans and receivables	–	2,870	22,759	–	**25,629**
Hedging derivatives	–	546	–	–	**546**
Investment properties	–	–	6	–	6
Total fair value assets	**5,653**	**5,279**	**22,769**	**102**	**33,803**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	1,150	525	–	**1,675**
Liabilities held for trading	–	1,174	–	–	**1,174**
Financial liabilities at amortized cost	–	5,837	22,467	–	**28,304**
Valuation adjustment on interest rate risk hedged portfolios	–	196	–	–	**196**
Hedging derivatives	–	160	–	–	160
Total fair value liabilities	**–**	**8,517**	**22,992**	**–**	**31,509**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.

in EUR million	Level 1	Level 2	Level 3	Others1)	31.12.2013 Total
Assets					
Financial assets designated at fair value through profit or loss	75	671	7	–	**753**
Available-for-sale financial assets	5,025	3	–	126	**5,154**
Held-to-maturity investments	774	–	–	–	**774**
Assets held for trading	–	1,081	–	–	**1,081**
Loans and receivables	–	5,693	21,701	–	**27,394**
Hedging derivatives	–	164	–	–	**164**
Investment properties			8	–	8
Total fair value assets	**5,874**	**7,612**	**21,716**	**126**	**35,328**
Liabilities					
Financial liabilities designated at fair value through profit or loss	51	2,377	540	–	**2,968**
Liabilities held for trading	–	1,298	–	–	**1,298**
Financial liabilities at amortized cost	–	3,731	24,742	–	**28,473**
Valuation adjustment on interest rate risk hedged portfolios	–	(2)	–	–	**(2)**
Hedging derivatives	–	126	–	–	126
Total fair value liabilities	**51**	**7,530**	**25,282**	**–**	**32,863**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.

BAWAG Holding 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 2014, a total of 19 available for sale securities were moved from Level 1 to Level 2 due to subsequently illiquid market prices.

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 EUR million	Financial assets	Financial liabilities
Opening balance as of 01.01.2014	**7**	**540**
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	(2)	15
for assets no longer held at the end of the period	2	–
Purchases	–	–
Redemptions	(3)	(30)
Sales	–	–
Foreign exchange differences	–	–
Transfers into or out of Level 3	–	–
Closing balance as of 31.12.2014	**4**	**525**

in EUR million	Financial assets	Financial liabilities
Opening balance as of 01.01.2013	**100**	**621**
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	2	(2)
for assets no longer held at the end of the period	–	–
Purchases	7	–
Redemptions	–	(79)
Sales	(101)	–
Foreign exchange differences	(1)	–
Transfers into or out of Level 3	–	–
Closing balance as of 31.12.2013	**7**	**540**

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

Holdings in the amount of EUR 3 million that were reported as Level 3 financial instruments on 31 December 2013 were disposed of in the financial year 2014. Financial liabilities in the amount of EUR 30 million that were reported under Level 3 in 2013 were redeemed in the current financial year.

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 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 spread premium is currently 65 basis points for all maturities (mid).

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

Sensitivity Analysis of 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; BAWAG Holding Group had Level 3 financial assets recognized at their fair value in the amount of EUR 4 million as of 31 December 2013. If the credit spread used in calculating fair value of own issues of BAWAG P.S.K. Wohnbaubank is increased by 20 basis points, the accumulated valuation result as of 31 December 2014 would have increased by EUR 4 million (prior year: EUR 5 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 31 December 2014 would have decreased by minus EUR 1.2 million (prior year: minus EUR 2.1 million).

36 | Receivables from and payables to subsidiaries and associates

BAWAG Holding Group's receivables from and payables to non-consolidated subsidiaries and associates were as shown below. Business relationships with these entities were subject to normal banking terms and conditions.

Receivables from and payables to subsidiaries

in EUR million	31.12.2014	31.12.2013
Receivables from customers	63	96
Receivables from subsidiaries	**63**	**96**
Deposits from customers	25	15
Payables to subsidiaries	**25**	**15**

Interest income from business with subsidiaries in 2014 totaled EUR 4 million (2013: EUR 5 million) and interest expense EUR 1 million (2013: EUR 1 million).

Receivables from and payables to associates

in EUR million	31.12.2014	31.12.2013
Receivables from customers	163	175
Securities	22	19
Receivables from associates	**185**	**194**
Deposits from customers	28	51
Payables to associates	**28**	**51**

37 | Related parties

Owners of BAWAG Holding GmbH

BAWAG Holding GmbH is wholly owned by the Dutch financial holding company Promontoria Sacher Holding N.V. As of 4 March 2015 the shareholder structure of Promontoria Sacher Holding N.V. is as follows: (i) 52.09% is held by various funds that are connected with Cerberus, (ii) 39.73% is held by various funds and customer accounts that are managed by GoldenTree, and (iii) the remaining shares are held by other entities, including Österreichische Post AG, Generali Holding Vienna AG and Wüstenrot Wohnungswirtschaft registrierte Genossenschaft mit beschränkter Haftung.

Major non-fully consolidated Subsidiaries, Joint Ventures and Equity Investments of BAWAG Holding Group

BAWAG P.S.K. Versicherung AG

BAWAG Holding indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K. Versicherung AG is accounted for using the equity method in BAWAG Holding Group's accounts. The business dealings between BAWAG Holding Group and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG Holding Group and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

BAWAG Allianz Vorsorgekasse AG

Half of this company is owned by BAWAG Holding Group and half by Allianz Elementar Versicherungs-Aktiengesellschaft. The assets under management totaled approximately EUR 1,030 million at the end of 2014, and are managed in equal parts by BAWAG P.S.K. INVEST GmbH and Allianz Investmentbank Aktiengesellschaft at standard market terms.

PSA Payment Services Austria GmbH

BAWAG Holding Group directly holds 20.82%in PSA Payment Services Austria GmbH. PSA Payment Services Austria is owned by several Austrian banks and banking groups. PSA is engaged in the service and the organization of the ATM card business. PSA Payment Services Austria is accounted for using the equity method in BAWAG Holding Group's accounts for the first time as at 31 December 2014.

Other subsidiaries

Please refer to Note 50 for a list of all non consolidated subsidiaries.

Transactions with Related Parties

The following table shows transactions with related parties:

in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	At-equity associates	Other companies
					31.12.2014
Loans and receivables – customers	–	1,085	63	–	164
Securities	–	62	–	22	–
Other assets (incl. derivatives)	–	2	7	–	–
Financial liabilities – customers	–	–	17	126	16
Other liabilities (incl. derivatives)	–	–	–	7	–
Guarantees provided	–	–	–	–	2
Interest income	–	25.7	2.2	0.4	3.4
Interest expense	–	–	–	2.8	–
Net fee and commission income	–	–	–	22.0	1.1

in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	At-equity associates	Other companies
					31.12.2013
Loans and receivables – customers	–	190	96	–	118
Securities	–	73	–	18	–
Other assets (incl. derivatives)	–	1	4	–	–
Financial liabilities – customers	–	–	15	170	7
Other liabilities (incl. derivatives)	–	1	–	6	–
Guarantees provided	–	–	–	–	1
Interest income	–	3.7	3.5	0.9	1.3
Interest expense	–	0.2	0.2	4.2	–
Net fee and commission income	–	–	–	25.0	0.6

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to EUR 0 million in 2014 (2013: EUR 0.3 million).

Regarding related party transactions, no write-offs or loan loss provisions were required.

Information regarding Natural Persons

Key Management

Key management of BAWAG Holding Group refers to the members of the Managing Board and the Supervisory Board of BAWAG Holding GmbH and BAWAG P.S.K. AG. Total personnel expenses including share-based payments for the key management amount to EUR 13.2 million.

Expenses for remuneration (including accrued and deferred bonuses and benefits in kind) relating to active members of the Managing Board of BAWAG P.S.K. AG and the members of the Managing Board of BAWAG Holding GmbH during the financial year amounted to EUR 9.8 million (2013: EUR 8.7 million). Expenditures for severance pay and post-employment benefits for the Managing Board came to EUR 2.2 million (2013: EUR 1.2 million).

At 31 December 2014, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members of BAWAG P.S.K. AG.

Expenses for post-employment benefits for former members of the Managing Board and their surviving dependents came to EUR 2.1 million (2013: EUR 1.6 million).

As of the reporting date, there was no outstanding loan or lease financing to a member of the Managing Board of BAWAG P.S.K. AG (2013: EUR 0.1 million). Loans or leasing financing to members of the Supervisory Board of BAWAG P.S.K. AG totaled EUR 0.2 million (2013: EUR 0.2 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Managing Board members did not make use of current account limits as of the reporting date. Supervisory Board members made use of current account limits in the amount of EUR 0 million (2013: EUR 0 million). Turnovers of credit cards guaranteed to third parties by the Group that belong to Managing Board
members amounted to EUR 0 million in December 2014 (2013: EUR 0 million). Turnovers of guaranteed credit cards that belong to members of the Supervisory Board amounted to EUR 0 million in December 2014 (2013: EUR 0 million).

A list of BAWAG Holding's Boards and Officers can be found in an appendix to the Notes.

The remuneration scheme for Supervisory Board members of BAWAG P.S.K. AG approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive EUR 60,000 per calendar year, the Deputy Chairman shall receive EUR 40,000 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive EUR 30,000 per calendar year. The chairmen of the Risk and Credit and Audit and Compliance Committees each receive EUR 20,000 and all other members of the Risk and Credit and Audit and Compliance Committees each receive EUR 10,000 (these additional compensation measures do not apply for the Chairman of the Supervisory Board). Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG came to EUR 0.4 million in 2014 (2013: EUR 0.4 million). Works Council delegates to the Supervisory Board do not receive any remuneration. Remuneration of members of the Supervisory Board of BAWAG Holding GmbH came to EUR 0.3 million (2013: EUR 0.3 million).

Two members of the Supervisory Board of BAWAG Holding GmbH had a consulting agreement with BAWAG Holding GmbH in 2014. The expenses for 2014 amounted to EUR 0.5 million (2013: EUR 0.2 million).

Promontoria Sacher Holding N.V. has entered into an award agreement for the granting of share appreciation rights (SARs) indexed to Promontoria stock to the Managing Board members, select senior employees and certain members of the Supervisory Board of BAWAG P.S.K. AG in the financial year 2013. BAWAG P.S.K. AG and BAWAG Holding GmbH are not a party to the transaction agreement.

The vesting conditions for the SARs require the contract parties to provide services to BAWAG P.S.K. AG within defined periods. According to IFRS 2.43B the total value of these SARs is treated as a shareholder contribution (equity settled) with a corresponding increase in compensation expense, as neither BAWAG P.S.K. AG nor BAWAG Holding GmbH has an obligation to settle the share based payment transaction. The total value of SARs was adjusted to EUR 24.4 million due to changes in beneficiaries allocated during the financial year. The fair value was calculated with a binomial option pricing model which considers the specific requirements with respect to the retention of the beneficiaries. Equal portions of the grant are eligible to vest on each anniversary of the grant during the vesting period, such that the award vests in equal tranches over the vesting period. For the purpose of the valuation, stock exchange quotes of comparable financial institutions listed on stock exchanges in Austria, the Netherlands, Finland, Sweden and Denmark are taken into account. These financial institutions are present in markets/economies that are comparable to the one BAWAG P.S.K. is active in. The risk-free rate is based on the interest rates of Dutch government zerobonds with corresponding terms of maturity.

The value included in the respective profit and loss line items in the financial year 2014 is EUR 0.6 million. The value shown under equity amounts to EUR 16.4 million.

Due to changed circumstances with regard to the time period between the issue of the SARs and the anticipated realization period was moved from 1.5 to 3 years resulting in an allocation of the expense over a total period of three years. The cumulative impact on the financial year 2014 is EUR 0.0 million in operating expenses and EUR 0.0 million in capital reserves. Without the extension of the period to the trigger event, the impact in the financial year 2014 would have been minus EUR 7.9 million in operating expenses and plus EUR 7.9 million in capital reserves. For the reporting period 2015, the cumulative impact will be minus EUR 7.9 million in operating expenses and plus EUR 7.9 million in capital reserves.

Business Relations with Related Parties

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 EUR million	Key management of the entity or its parent	Other related parties 31.12.2014	Key management of the entity or its parent	Other related parties 31.12.2013
Current account deposits	3	2	4	1
Savings deposits	1	2	1	3
Loans	0	2	0	2
Leasing	0	0	0	0
Securities	0	1	1	1
Interest income	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.1	0.0

Not all managerial staff are entitled to post-employment benefits from the Group. The managerial employees who are entitled to post-employment benefits from the Group were awarded these entitlements under the provisions of the 1961 pension reform or on the basis of individual commitments by the Group. All employees are entitled to pension benefits from a pension fund under the provisions of the collective bargaining agreement for pension funds (defined contribution plan).

38 | Major changes in the Group's holdings

BAWAG Malta

As of 24 June 2014, BAWAG Malta Bank Ltd. reduced its subscribed capital from EUR 500 million to EUR 100 million. Earlier this year, BAWAG Malta Bank Ltd. dissolved an investment structure (via Rhein Limited and Bodensee Limited) with a minority shareholder. Rhein Limited was liquidated with effect from 5 December 2014, Bodensee Ltd. was put into liquidation by way of a shareholder resolution dated 9 September 2014.

BAWAG Capital Finance (Jersey) Limited

BAWAG Capital Finance (Jersey) Limited has exercised its call option in relation to Perpetual Non-Cumulative Non- Voting Fixed/Floating Rate Preference Shares issued in 2000. BAWAG Capital Finance (Jersey) Limited redeemed 58,629 Preference Shares of EUR 1,000 each as of 31 July 2014. BAWAG Capital Finance (Jersey) Limited was liquidated with effect from 24 September 2014.

Navensis, E2E

In the course of the restructuring of the loan and payment processing of BAWAG Holding Group, Navensis Zahlungsverkehrsabwicklungs GmbH was merged into BAWAG P.S.K. effective 18 July 2014.

E2E Service Center Holding GmbH was established in August 2014 as a 100% BAWAG Holding Group company and forms, together with its 100% subsidiaries E2E Kreditmanagement GmbH, established in November 2013, and E2E Transaktionsmanagement GmbH, established in August 2014, the competence center for payments and loan processing in BAWAG Holding Group.

Both companies were included in the scope of consolidation for the first time as of August 2014.

BAWAG P.S.K. INVEST GmbH

On 23 October 2014, a share purchase agreement for all of the shares in BAWAG P.S.K. INVEST GmbH was signed between P.S.K. Beteiligungsverwaltung GmbH as seller and Amundi S.A. as buyer. As of 31 December, the closing was inter alia dependent on the non-prohibition by the antitrust authority and the approval by the Financial Market Authority (FMA). The final closing of the sale of all shares to Amundi S.A. took place on 9 February 2015.

Leasing CEE

Based on the Group's stronger focus on its activities in the core markets of Austria and Western Europe, the decision was made in 2011 to reduce the leasing activities in Central and Eastern Europe. The Group is pursuing this strategy through the sale of company shareholdings as well as through ongoing natural attrition. Corresponding provisions were formed where necessary. The efforts to reduce exposure in this segment are proceeding as planned. With closing on 31 March 2014, the sale of the two Hungarian Leasing subsidiaries BAWAG Leasing Zrt. and BAWAG Leasing & Fleet Kft was finalized by way of a management buyout. The Slovak Real Estate Leasing s.r.o. was merged with the also Slovak BAWAG Leasing s.r.o. with effect from 10 April 2014.

Generali Leasing GmbH

With effect from 13 June 2014, BAWAG P.S.K. LEASING GmbH sold its 25% stake in Generali Leasing GmbH to the majority shareholder Generali Versicherung AG.

PSA Payment Services Austria

As part of the simplification and the unbundling of the legacy and complex shareholders structure of PSA, E-C-A Holding Gesellschaft m.b.H., E-C-B Beteiligungsgesellschaft m.b.H. and EBG Europay Beteiligungs-GmbH were merged within the PSA structure and stricken from the companies register. After completion of the transaction, BAWAG Holding Group's direct share in PSA is unchanged at 20.82%.

PSA Payment Services Austria GmbH was included in the scope of consolidation for the first time as of 31 December 2014 using the equity method.

MKB Bank Zrt.

On 21 February 2014, P.S.K. Beteiligungsverwaltung GmbH sold its stake in MKB Bank Zrt. to the then majority shareholder Bayerische Landesbank.

BAWAG Allianz Vorsorgekasse AG

In the course of the realignment of the existing partnership, BAWAG P.S.K. and Allianz Elementar Versicherungs-AG agreed in principal on 19 December 2014 that Allianz Elementar Versicherungs-AG would acquire the 50% stake of BAWAG P.S.K. The transaction, still subject to contract, is planned to be completed after having received the required regulatory approvals, particularly the consent of the Financial Market Authority (FMA).

Other Major Changes in the Group's Holdings

On 30 October 2014, the liquidation of the A.U.S. companies was completed. All companies were stricken from the companies register and deconsolidated.

BAWAG CAPITAL FINANCE LIMITED and Rhein Limited were stricken from the register of companies and deconsolidated.

Bodensee Limited, RF sechs BAWAG P.S.K. LEASING GmbH & Co.KG., RF BAWAG Leasing Gesellschaft m.b.H. and BAWAG P.S.K. Vermietungs- und Leasing GmbH were deconsolidated during the reporting period because of immateriality.

For further details, please refer to Notes 49 and 50.

39 | Assets pledged as collateral

in EUR million	**31.12.2014**	**31.12.2013**
Receivables and securities assigned to Oesterreichische Kontrollbank AG	533	586
Collateral pledged to the European Investment Bank	581	691
Cover pool for trust savings deposits	32	37
Cover pool for covered bonds	2,737	2,863
Collateral for tender facilities	1,001	–
Other collateral	27	24
Cash collateral for derivatives	320	661
Assets pledged as collateral	**5,231**	**4,862**

The Group pledges assets primarily for repurchase agreements which are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities.

Regarding export financing, receivables and securities assigned to Oesterreichische Kontrollbank AG are pledged. Pledges for trust savings deposits are conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG).

Additionally, relevant collateral was provided for refinancing at the European Investment Bank.

40 | Total collateralized debt

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

in EUR million	31.12.2014	31.12.2013
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	534	586
Payables arising due to refinancing by the European Investment Bank	437	507
Trust savings deposits	21	23
Payables secured by the cover pool for covered bonds	1,388	1,863
Tender facilities	711	–
Negative market values of derivatives	320	636
Total collateralized debt	**3,411**	**3,615**

The line item Tender facilities refers to the Group's participation in the TLTRO in September 2014, in which the Group funded EUR 0.7 billion from the ECB in the first tranche. These tender facilities correspond to the line item Collateral for tender facilities in the table above.

41 | Genuine repurchase agreements

in EUR million	31.12.2014	31.12.2013
Lender – receivables from credit institutions	59	1,127
Repurchase agreements	**59**	**1,127**

42 | Collateral received that may be sold or repledged in the absence of default

The following table depicts the fair value of financial assets accepted as collateral that may be sold or repledged in the absence of default of the owner as well as the book value of the related receivables.

in EUR million	31.12.2014	31.12.2013
Collateral provided by borrower	70	1,103
Carrying amount of associated receivables	59	1,127

Collateral received that may be sold or repledged in the absence of default relates to reverse repurchase agreements.

43 | Subordinated assets

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

in EUR million	31.12.2014	31.12.2013
Loans and receivables	114	9
Subordinated assets designated at fair value through profit or loss	7	7
Subordinated assets	**121**	**16**

44 | Offsetting financial assets and financial liabilities

BAWAG Holding Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG Holding Group currently does not have any legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in BAWAG Holding Group's Statement of Financial Position; or

– are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

in EUR million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral received	Net amount
						31.12.2014
Derivatives (excl. hedging derivatives)	1,163	–	1,163	545	333	**285**
Hedging derivatives	546	–	546	362	128	**56**
Reverse repo transactions	59	–	59	59	–	**–**
Loans to and receivables from customers	1,463	179	1,284	–	–	**1,284**
Total	**3,231**	**179**	**3,052**	**966**	**461**	**1,625**

in EUR million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral received	Net amount
						31.12.2013
Derivatives (excl. hedging derivatives)	1,081	–	1,081	594	295	**192**
Hedging derivatives	164	–	164	119	38	**7**
Reverse repo transactions	1,127	–	1,127	1,103	–	**24**
Loans to and receivables from customers	1,425	169	1,256	–	–	**1,256**
Total	**3,797**	**169**	**3,628**	**1,816**	**333**	**1,479**

Financial liabilities

in EUR million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral pledged	Net amount
						31.12.2014
Derivatives (excl. hedging derivatives)	1,174	–	1,174	1,091	83	**–**
Hedging derivatives	160	–	160	160	–	**–**
Customer deposits	179	179	–	–	–	**–**
Total	**1,513**	**179**	**1,334**	**1,251**	**83**	**–**

in EUR million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral pledged	31.12.2013 Net amount
Derivatives (excl. hedging derivatives)	1,298	–	1,298	731	567	–
Hedging derivatives	126	–	126	92	34	–
Customer deposits	169	169	–	–	–	–
Total	**1,593**	**169**	**1,424**	**823**	**601**	**–**

The following tables reconcile the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position to the respective line items in the Statement of Financial Position:

Financial assets

in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	31.12.2014 Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	1,163	–	1,163
Hedging derivatives	Hedging derivatives	546	–	546
Reverse repo transactions	Loans to and receivables from credit institutions	1,518	1,459	59
Loans to and receivables from customers	Loans to and receivables from customers	21,779	20,495	1,284
Total		**25,006**	**21,954**	**3,052**

in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	31.12.2013 Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	1,081	–	1,081
Hedging derivatives	Hedging derivatives	164	–	164
Reverse repo transactions	Loans to and receivables from credit institutions	3,791	2,664	1,127
Loans to and receivables from customers	Loans to and receivables from customers	20,971	19,715	1,256
Total		**26,007**	**22,379**	**3,628**

Financial liabilities

in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
				31.12.2014
Derivatives (excl. hedging derivatives)	Liabilities held for trading	1,174	–	1,174
Hedging derivatives	Hedging derivatives	160	–	160
Customer deposits	Deposits from customers	21,135	21,135	–
Total		**22,469**	**21,135**	**1,334**

in EUR million	Line item in Statement of Financial Position	Carrying amount of line item in statement of financial position	Thereof without offsetting agreement	Thereof with offsetting agreement
				31.12.2013
Derivatives (excl. hedging derivatives)	Liabilities held for trading	1,298	–	1,298
Hedging derivatives	Hedging derivatives	126	–	126
Customer deposits	Deposits from customers	22,013	22,013	–
Total		**23,437**	**22,013**	**1,424**

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

in EUR million	31.12.2014	31.12.2013
Contingent assets	**–**	**–**
Contingent liabilities	**442**	**658**
Arising from guarantees	442	658
Unused customer credit lines	**5,920**	**5,674**
Thereof terminable at any time and without notice	4,525	4,116
Thereof not terminable at any time	1,395	1,558

46 | Foreign currency amounts

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

in EUR million	31.12.2014	31.12.2013
USD	2,264	1,277
CHF	2,340	2,565
GBP	1,069	670
Other	125	223
Foreign currency	**5,798**	**4,735**
EUR	**29,056**	**31,890**
Total assets	**34,854**	**36,625**
USD	509	613
CHF	505	536
GBP	35	289
Other	260	284
Foreign currency	**1,309**	**1,722**
EUR	**33,545**	**34,903**
Total liabilities	**34,854**	**36,625**

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

47 | Leasing

Finance Leasing from the View of BAWAG Holding Group as Lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG Holding Group leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

				31.12.2014
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	172	409	130	**711**
As yet unrealized financial income	14	27	9	**50**
Receivables from finance leases (net investment value)	**158**	**382**	**121**	**661**

				31.12.2013
in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	207	480	156	**843**
As yet unrealized financial income	17	34	11	**62**
Receivables from finance leases (net investment value)	**190**	**446**	**145**	**781**

As of 31 December 2014, the non-guaranteed residual value amounts to EUR 41 million (2013: EUR 44 million).

There were no impairments recognized in respect of irrecoverable minimum lease installments (2013: EUR 0.0 million).

Operating Leasing from the View of BAWAG Holding Group as Lessee

Operating Leases

The Group leases the majority of its offices and branches under various rental agreements. The lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

In 2013, BAWAG P.S.K. AG entered into a sale and lease back transaction with a long-term rental agreement in place.

Future Minimum Lease Payments Required under Operating Leases

in EUR million	31.12.2014	31.12.2013
Future minimum rental payments		
Not later than one year	24	24
Over one year and not later than five years	69	69
Over five years	117	133
Total future minimum rental payments	**210**	**227**
less: Future minimum rentals to be received	2	2
Net future minimum rental payments	**208**	**225**
Rental payments for lease agreements	(24)	(18)
Rental income from sublease contracts	2	2

48 | Derivative financial transactions

Derivative financial transactions as of 31.12.2014

							31.12.2014
		Nominal amount/maturity[1]				Fair value[1]	
in EUR million		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**9,098**	**16,588**	**12,850**	**38,536**	**1,566**	**(819)**
Thereof	interest rate swaps banking book	6,930	11,280	10,221	28,431	1,184	(587)
	interest rate options banking book	47	241	305	593	19	(17)
	forward rate agreements banking book	–	–	–	–	–	–
	interest rate swaps trading book	1,269	3,732	1,755	6,756	268	(129)
	interest rate options trading book	852	1,335	569	2,756	95	(86)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**6,758**	**6,377**	**974**	**14,109**	**131**	**(504)**
Thereof	currency swaps banking book	247	1,957	841	3,045	2	(207)
	foreign currency forward transactions and options banking book	3,894	1,142	133	5,169	88	(109)
	currency swaps trading book	–	1	–	1	–	–
	foreign currency forward transactions and options trading book	2,617	3,277	–	5,894	41	(188)
Securities related business		**289**	**652**	**55**	**996**	**12**	**(11)**
Thereof	securities related business banking book	289	652	55	996	12	(11)
Total		**16,145**	**23,617**	**13,879**	**53,641**	**1,709**	**(1,334)**
Thereof	banking book business	11,407	15,272	11,555	38,234	1,305	(931)
	trading book business	4,738	8,345	2,324	15,407	404	(403)

1) Banking book derivatives include fair value hedging instruments.

Derivative financial transactions as of 31.12.2013

		31.12.2013					
		Nominal amount/maturity1)				Fair value1)	
in EUR million		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**16,749**	**24,395**	**13,096**	**54,240**	**1,082**	**(662)**
Thereof	interest rate swaps banking book	15,097	16,973	9,468	41,538	753	(556)
	interest rate options banking book	196	192	408	796	16	(15)
	forward rate agreements banking book	162	–	–	162	–	–
	interest rate swaps trading book	621	4,113	2,425	7,159	245	(37)
	interest rate options trading book	673	3,117	795	4,585	68	(54)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**7,654**	**8,598**	**1,089**	**17,341**	**147**	**(752)**
Thereof	currency swaps banking book	1,548	628	938	3,114	8	(426)
	foreign currency forward transactions and options banking book	3,980	2,072	151	6,203	75	(74)
	currency swaps trading book	–	4	–	4	–	(1)
	foreign currency forward transactions and options trading book	2,126	5,894	–	8,020	64	(251)
Securities related business		**398**	**859**	**60**	**1,317**	**16**	**(10)**
Thereof	securities related business banking book	398	859	60	1,317	16	(10)
Total		**24,801**	**33,852**	**14,245**	**72,898**	**1,245**	**(1,424)**
Thereof	banking book business	21,381	20,724	11,025	53,130	868	(1,081)
	trading book business	3,420	13,128	3,220	19,768	377	(343)

1) Banking book derivatives include fair value hedging instruments.

49 | List of consolidated subsidiaries

		31.12.2014		31.12.2013
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG Malta Bank Limited, Sliema	F	100.00%	F	100.00%
BAWAG P.S.K. INVEST GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
easybank AG, Vienna	F	100.00%	F	100.00%
Real estate				
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BPI Holding GmbH & Co KEG., Vienna	F	100.00%	F	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
Leasing				
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Vermietungs- und Leasing GmbH, Vienna	–	–	F	100.00%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
RF BAWAG Leasing Gesellschaft m.b.H., Vienna	–	–	F	100.00%
RF 17 BAWAG Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	–	–	F	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
START Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%
Other non credit institutions				
A.U.S. Alpha Holding GmbH, Vienna	–	–	F	100.00%
A.U.S. Alpha Vermögensverwaltung GmbH, Vienna	–	–	F	100.00%
A.U.S. Beta Holding GmbH, Vienna	–	–	F	100.00%
A.U.S. Beta Vermögensverwaltung GmbH, Vienna	–	–	F	100.00%
A.U.S. Delta Holding GmbH, Vienna	–	–	F	100.00%
A.U.S. Delta Vermögensverwaltung GmbH, Vienna	–	–	F	100.00%
A.U.S. Gamma Holding GmbH, Vienna	–	–	F	100.00%
A.U.S. Gamma Vermögensverwaltung GmbH, Vienna	–	–	F	100.00%
BAWAG CAPITAL FINANCE II LIMITED, St. Helier	F	100.00%	F	100.00%
BAWAG CAPITAL FINANCE LIMITED, St. Helier	–	–	F	100.00%
BAWAG Finance Malta Ltd., Sliema	F	100.00%	F	100.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	F	100.00%
E2E Kreditmanagement GmbH, Vienna	F	100.00%	F	100.00%
E2E Service Center Holding GmbH, Vienna	F	100.00%	–	–
E2E Transaktionsmanagement GmbH, Vienna	F	100.00%	–	–
NAVENSIS Zahlungsverkehrsabwicklungs GmbH, Vienna	–	–	F	100.00%

		31.12.2014		31.12.2013
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH, Vienna	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	–	–
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
Rhein Limited, Grand Cayman	–	–	F	51.00%

F … Full consolidation, E… Equity method

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

	31.12.2014	31.12.2013
Banks		
BAWAG Allianz Vorsorgekasse AG, Vienna	50.00%	50.00%
Real Estate		
B.A.O. Immobilienvermietungs GmbH in Liqu., Vienna	33.33%	33.33%
IDG Immobilien Development Gesellschaft mbH & Co KG, Vienna	0.00%	100.00%
Plato Grundstücksverwertungs GmbH in Liqu., Vienna	–	100.00%
Leasing		
BAWAG Leasing & fleet Kft, Budapest	–	100.00%
BAWAG Leasing & fleet s.r.o., Bratislava	100.00%	100.00%
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
BAWAG Leasing Zrt., Budapest	–	100.00%
BAWAG Real Estate Leasing s.r.o., Prague	100.00%	100.00%
BPLCZ One s.r.o., Prague	100.00%	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
Generali Leasing GmbH, Vienna	–	25.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
REAL ESTATE Leasing s.r.o., Bratislava	–	100.00%
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	50.00%	50.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	–
Other non credit institutions		
AI-ALTERNATIVE INVESTMENTS LTD., St. Helier	100.00%	100.00%
Athena Burgenland Beteiligungen AG, Eisenstadt	38.30%	38.30%
Athena Wien Beteiligungen AG, Vienna	50.00%	50.00%
Athena Zweite Beteiligungen GmbH, Vienna	–	33.33%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
AUSTWEST ANSTALT, Triesen	100.00%	–
BAWAG Investments Ltd., St. Helier	–	100.00%
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	100.00%	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	100.00%
Bodensee Limited in Liqu., Sliema	51.00%	–
E-C-B Beteiligungsgesellschaft m.b.H., Vienna	–	50.00%
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	61.64%	61.68%
LTB Beteiligungs GmbH, Vienna	25.10%	25.10v%
MAP Handels GmbH, Vienna	–	95.84%
media.at GmbH, Vienna	26.30%	26.30%

	31.12.2014	31.12.2013
MediaSelect GmbH, Vienna	26.30%	26.30%
mediastrategen GmbH, Vienna	26.30%	–
MF BAWAG Blocker LLC, Wilmington	100.00%	–
OmniMedia GmbH, Vienna	26.30%	26.30%
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%	50.00%
P.S.K. Handel und Vermietung GmbH. in Liqu., Vienna	100.00%	100.00%
PSA Payment Services Austria GmbH, Vienna	–	20.82%
The Siesta Group Schlafanalyse GmbH, Vienna	24.60%	24.60%
uni venture Beteiligungs AG, Vienna	–	100.00%
WBG Wohnen und Bauen Gesellschaft mbH Wien, Vienna	24.00%	24.00%

51 | Involvement with associated companies

Investments in associates disclosed in this note are accounted for using the equity method. BAWAG Holding Group includes two companies that are accounted for using the equity method: BAWAG P.S.K. Versicherung AG, Vienna, and PSA Payment Services Austria GmbH, Vienna, which was consolidated for the first time in 2014. In the table below you will find aggregated financial information on the Group's share in associates, which are considered to be immaterial compared to the Group's total assets and profit or loss.

in EUR million	31.12.2014	31.12.2013
Carrying amounts of all associates	37	18
Aggregated amount of the Group's share of profit or loss	0.9	(0.9)
Aggregated amount of the Group's share of other comprehensive income	1.5	(0.7)
Aggregated amount of the Group's share of total comprehensive income	2.4	(1.6)

52 | CLO book and other non-consolidated structured entities

BAWAG Holding Group also engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor for the determination of control over the entity. This is, for example, the case when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

– Restricted activities

– A narrow and well-defined objective

– Insufficient equity

– Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements or other means.

The table below describes the types of structured entities of the Group.

Nature	Purpose and activities	Type of income or expense
Securitisation Special Purpose Entities	- Investing in high-quality tranches - Financed through the issue of notes	Interest income
Other structured entities	- Special leasing - Financed through loans	Interest income

The Group provides a different measure for the size of structured entities depending on their nature. For securitizations, this is the notional of notes in issue (EUR 752 million). Regarding other structured entities, the total assets of these entities best measures their size (EUR 117 million).

The table below sets out an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

in EUR million	**2014**
Carrying amounts of assets in connection with investments in structured entities	**725**
on the balance sheet shown under Loans and receivables	725
Carrying amounts of liabilities in connection with investments in structured entities	**0**
Income	**13.6**
Interest income	13.6
Losses incurred during reporting period	0
Maximum exposure to loss	725

BAWAG Holding neither provided any financial or other support to an unconsolidated securitization vehicle during the financial year nor does it have any current intention to do so.

RISK REPORT

The Risk Management function of BAWAG Holding and BAWAG P.S.K. Group has the responsibility to identify, measure, control, monitor and manage all risks the Group is exposed to. At all organizational levels, Market and Risk functions are strictly separated.

The Managing Board of BAWAG P.S.K. defines the overall risk appetite and risk strategy. The principles of risk management, limits for all material risks and procedures for monitoring these risks are documented in risk manuals and guidelines. The Managing Board is continuously and proactively updated on the overall risk management situation – including ICAAP, clearly defined risk metrics, monthly risk reporting, operational risk matters and specific risk topics. Quarterly risk reports are submitted to the Supervisory Board's monitoring and control committees.

Risk management policies, procedures and systems are reviewed regularly to reflect changes in both market conditions and the products / services offered by the Group.

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

– Commercial and Institutional Risk

– Credit Risk Retail and Small Business

– Market Risk

– Strategic Risk

The material risks managed by the risk organization are the following:

– Credit risk

– Market risk

– Liquidity risk

– Operational risk

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

53 | Credit risk

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

Operations in the divisions that are responsible for credit risk are set up to include functional risk management expertise for both the Commercial and Institutional and the Retail and Small Business customer. The Strategic Risk division oversees the aggregation of the individual risk metrics, indicators and overall reporting.

In Retail and Small Business, the creditworthiness of private and small business customers is assessed by automated scorecards. The scorecards' scoring is based on mathematical and statistical models 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 expected loss given default (LGD) and the expected utilization of the off-balance-sheet exposure value at the time of default are also estimated in Retail and Small Business. The estimate is based on the historical empirical data of overall customer behavior and is analyzed using various statistical methods and models.

For each commercial loan application, the borrower's credit rating is assessed using an internal rating method unique to each customer business segment. The rating methods that have been developed are based on a broad spectrum of quantitative and qualitative factors. Specific risk categories are assigned to each customer and represent an individual estimated probability of default. No external ratings (i.e. rating agency data) are available for the majority of commercial customers.

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

As a Group that applies the Internal Rating-Based (IRB) approach, high standards are set with regards to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to both scorecards and rating systems. Specific standards are in place for all sub-portfolios that are monitored and validated on a regular basis. Due to the centralized structure and coordination of the Group, new risk regulations or changing market situations are adopted real-time into the risk management strategies. In the following sections, the credit quality of the Retail Banking and Small Business segment is shown by days past due and loan to value ratios and in the Corporate Lending and Investments segment by investment grade ratios.

Business segment development in 2014

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

Retail Banking and Small Business experienced growth in core consumer loan and mortgage products. Significant efforts have been put in place to enhance overall underwriting standards drawing on the expansive customer database. In terms of consumer loans, the focus is on automated underwriting models that are continuously enhanced within the core banking system. As for mortgages, the focus has been on strong collateral coverage. The Group's new mortgage originations have an average LTV of less than 80% and an overall portfolio LTV of 65%. The social housing portfolio remained stable year-over-year with limited new volume growth but characterized by an overall low LTV on the portfolio of 51%. Small business loans continue to be monitored proactively to ensure the possible identification of weakening credits and if required, the risk mitigation through the portfolio management group.

Corporate Lending and Investments was characterized by proactive risk management, disciplined growth in stable international Western countries, continued exit of non-core CEE assets and maintaining a disciplined approach on risk-adjusted pricing. The Austrian Corporate business is focused on managing specific credit risks based on customer-specific financial profiles, industry limits and risk-adjusted returns. A great deal of effort and resources have been directed towards proactive risk management. This entails separating customers with solid financial standing and future growth prospects from those with a weakening credit profile and / or not meeting acceptable profitability metrics based on risk-adjusted returns. The growth in international business has been characterized by high-quality individual credits, solid credit metrics (i.e. LTV and debt yield for real estate / portfolio transactions and leverage ratios for corporate transactions). The high credit quality of the international business was further validated by the Asset Quality Review (AQR) of BAWAG P.S.K., where 100% of the international portfolio data were delivered to the ECB and resulted in no issues or adjustments identified. Additionally, we have continued to support the Group's overall strategy of exiting CEE markets. Overall, the CEE loan portfolio was further reduced by EUR 427 million (a reduction of 67%) with immaterial losses. The current CEE loan portfolio is EUR 212 million with NPLs below EUR 20 million (NPL coverage ratio 77%). The goal is to fully exit CEE loan assets.

In BAWAG Holding's Treasury Services and Markets division, the bond portfolio was rebalanced to shift investments into stable economies with a focus on high-quality bonds (e.g. covered and uncovered bank bonds, sovereign investments and AAA-rated CLOs). The portfolio consists primarily of investments in Europe and the United States. The portfolio is comprised of 100% investment grade-rated bonds, of which 85% are rated in the single "A" category or higher. Exposure to CEE bonds represented < 3%, with 95% rated in the single "A" rating or higher. The portfolio has no direct exposure to Russia, Hungary or South-Eastern Europe as of 31 December 2014.

The Corporate Center is comprised primarily of the Group's liquidity reserve and positive market values from derivatives and non-core participations. All central functions and Group Asset-Liability Management (ALM) activities are part of the Corporate Center. Assets were reduced by 38%, primarily driven by the reduction of assets related to excess liquidity in money market positions.

Credit risk and bonds by business segment

	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total portfolio	
in EUR million	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013
Book value	9,308	9,190	12,352	11,274	0	86	1,816	4,618	23,476	25,168
Bonds	7	10	1,465	1,765	5,755	4,935	818	1,892	8,045	8,602
Off-balance business	1,938	1,843	1,562	561	1,239	660	62	118	4,801	3,182
Total	**11,253**	**11,043**	**15,379**	**13,600**	**6,994**	**5,681**	**2,696**	**6,628**	**36,322**	**36,952**
thereof collateralized[1)]	6,372	6,198	4,348	4,459	232	117	150	132	11,102	10,906
thereof NPL (incl. LLP, gross view)	305	305	153	336	0	8	257	281	715	930

1) Economic collaterals comprise residential and commercial real estate, guarantees, life insurances, etc.

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

					31.12.2014
	Note 16	**Notes 12, 13, 14[1)]**	**Risk view**		**Segment Report**
in EUR million	**Loans and receivables (L&R)**	**Loans and bonds (not part of L&R)**	**Total loans & bonds**	**Other assets**	**Total assets**
Retail Banking and Small Business	9,308	7	9,315	264	9,579
Corporate Lending and Investments	13,115	702	13,817	68	13,885
Treasury Services and Markets	959	4,797	5,755	0	5,755
Corporate Center	1,898	736	2,634	2,798	5,432
Reconciliation	0	0	0	203	203
Total	**25,280**	**6,242**	**31,521**	**3,332**	**34,854**

					31.12.2013
	Note 16	**Notes 12, 13, 14[1)]**	**Risk view**		**Segment Report**
in EUR million	**Loans and receivables (L&R)**	**Loans and bonds (not part of L&R)**	**Total loans & bonds**	**Other assets**	**Total assets**
Retail Banking and Small Business	9,190	10	9,200	325	9,525
Corporate Lending and Investments	11,807	1,231	13,039	(101)	12,938
Treasury Services and Markets	775	4,246	5,021	103	5,124
Corporate Center	5,484	1,027	6,510	2,305	8,815
Reconciliation	0	0	0	223	223
Total	**27,256**	**6,514**	**33,770**	**2,855**	**36,625**

1) Shares and other variable rate securities (2014: EUR 7 million, 2013: EUR 40 million) are not included.

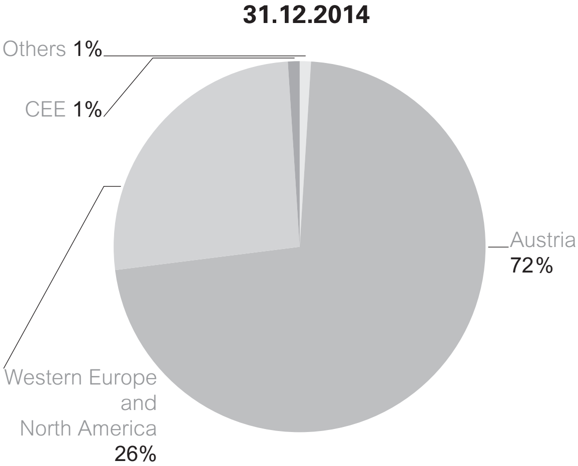
Geographical distribution of the loan and bond portfolio

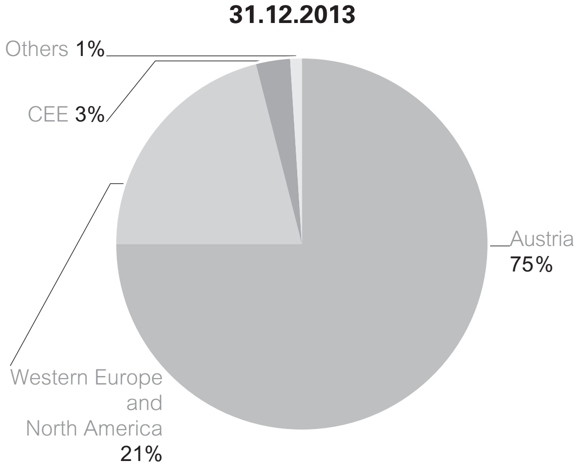
The geographic distribution of the loan portfolio is in line with the Group's strategy to be in stable geographies and currencies. 72% of the portfolio is located in Austria, 26% in Western Europe and North America[1)] and less than 1% in CEE.

The geographic distribution of the bond portfolio is 78% in Western Europe and North America[2)], 13% in Austria and 3% in CEE.

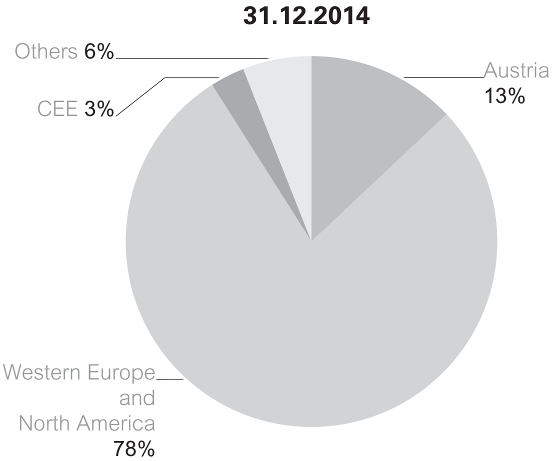
1) This includes Germany with 6% (2013: 6%), United States with 6% (1%), Great Britain with 4% (4%) and France with 3% (6%).
2) This includes Great Britain with 12% (2013: 10%), United States with 12% (12%), France with 7% (4%) and Germany with 4% (3%).

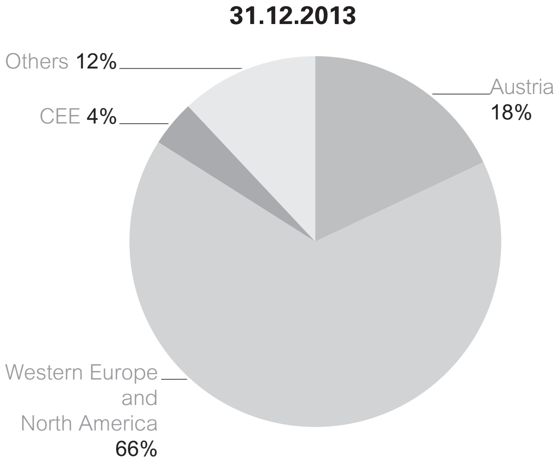
Geographical distribution of loans





Geographical distribution of bonds





Geographical distribution of the loan and bond portfolio – Portugal, Ireland, Italy, Greece, Spain (peripheral Europe)

As the economic conditions in Ireland and Spain have significantly improved, select international lending was extended in these countries. The Group continues to have no Greece exposure since 2012. Lending and investments in this segment are characterized by high credit quality transactions focused on very solid covenants, overcollateralization and low leverage. The significant part of the loan portfolio consists of large corporates and commercial real estate and represents 95% investment grade in Ireland and 100% investment grade transactions in Spain. The banks and sovereign exposures represent 100% investment grade bonds. Individual bank investments are focused on the underwriting of individual bonds and are less dependent on external credit rating.

	Book value		**Banks**		**Non-banks**		**Sovereigns**	
in EUR million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Ireland	1,116	325	21	10	1,007	241	88	74
Spain	908	708	212	256	536	323	160	129
Italy	461	464	241	273	38	34	182	157
Portugal	24	64	24	51	–	–	–	13
Total	**2,509**	**1,561**	**498**	**590**	**1,581**	**598**	**430**	**373**

Credit portfolio and bonds by currencies

Consistent with the Group's overall positioning, the majority captures the currency distribution of the credit portfolio and of financing is denominated in EUR. The following table bond book of the Group.

	Book value		Relative value	
in EUR million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
EUR	25,818	29,186	81.9%	86.4%
CHF	2,286	2,492	7.3%	7.4%
USD	2,240	1,220	7.1%	3.6%
GBP	1,058	687	3.4%	2.0%
Others	119	185	0.4%	0.5%
Total	**31,521**	**33,770**	**100.0%**	**100.0%**

Credit quality overview: Loans, provisions, delinquencies and collaterals

The following table captures the days past due, NPL ratio and provisioning of the loan portfolio. The low-risk profile is reflected by the NPL ratio, low delinquency of loan volumes and provision and collateral coverage across the portfolios.

Approximately 72% of the total portfolio can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value[1]		Relative value	
in EUR million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Loans and receivables (net)	25,280	27,256	99.0%	98.8%
Individual provisions	278	359	1.1%	1.3%
Loans and receivables (gross)	25,558	27,615	100.1%	100.1%
IBNR	31	33	0.1%	0.1%
Total	**25,527**	**27,582**	**100.0%**	**100.0%**
thereof performing	24,812	26,652	97.2%	96.6%
thereof non-performing	715	930	2.8%	3.4%
NPL LLP coverage ratio	–	–	38.8%	38.6%
NPL coverage ratio (collateral + LLP)	–	–	62.6%	59.3%
Additional information (in EUR million):				
Total unprovisioned outstandings past due	267	209	1.0%	0.8%
1–30 days	151	125	0.6%	0.5%
31–60 days	29	10	0.1%	0.0%
61–90 days	5	7	0.0%	0.0%
91–180 days	10	25	0.0%	0.1%
More than 180 days	73	42	0.3%	0.2%

1) Bonds are not included since the bond portfolio does not show any days past due or non-performing loans.

Impaired loans

Provisions are booked on loans for which the probability of collection will not be fulfilled. The main components are:

- Specific loan loss provisions are formed manually after a detailed analysis. In cases when exposures are restructured according to internal processes, which may include the extension of forbearance measures, an appropriate impairment test is performed. The derecognition is assessed on an individual basis.
- Loan loss provisions are booked automatically by the core banking system in the case of unpaid balances. This occurs when limits are continuously exceeded on current accounts and / or when legal action is initiated.
- A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on-and-off balance sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 31 December 2014, the IBNR portfolio impairment amounted to EUR 37.8 million (comprised of EUR 30.8 million for financial assets and EUR 7.0 million for off-balance sheet items – e.g. contractual liabilities and guarantees), versus EUR 41.2 million the prior year.

The volume reported as NPL includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed[1].

Non-performing loans (NPLs)

Exposures relating to all customers in default risk class 8[2] are categorized as non-performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account. When a material exposure of a customer is greater than 90 days past due, a loan loss provision is allocated or a customer-specific default criterion applies. The customer is considered to be in default across all exposure-related products and is assigned to risk class 8.

The overall development of the NPL portfolio is shown on the following pages segmented by respective business units.

Forbearance

Measures of forbearance or refinancing 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, or refinancing, may be granted. In this respect, strictly temporary measures – i.e. a reduction or postponement of as well as transfer to terms of interest only repayments are in place. In exceptional cases, temporary or permanent reduction of interest rates may be granted. Depending on customer segments, a split of loan agreements or refinancing facilities may be accepted as viable measures.

The description of different responsibilities for managing and monitoring forbearance measures is covered by detailed guidelines.

Measures of forbearance or refinancing are instruments to ultimately reduce the existing risk with respect to debt claims. However, forbearance measure is by no means used to avoid or postpone the recognition of impairment or disguise the level of credit risk resulting from forborne assets.

By implementing forbearance measures, the Group supports clients in maintaining financial stability. One of the positive effects of forbearance is to assist clients on their way back to a sustainable financial situation. If the supporting measure is not successful, exposures are recognized as non-performing and impaired according to regulatory and accounting standards. For clients or a group of clients where a loss was identified, a provision is booked by following internal guidelines.

For reporting as well as internal risk management purposes, the Group implemented processes and methods according to regulatory standards[3] in order to identify exposures for which forbearance or refinancing measures have been extended and also the respective reclassification of forbearance measures is considered.

Collateral and valuation of residential and commercial real estate

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

The central real estate valuation department determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich)*.

The values of commercial real estate properties are appraised individually by experts in the central real estate valuation department, by select external appraisers commissioned by the Group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

Workout group

The workout group is responsible for the processing and administration of troubled and defaulted loan commitments. The primary objective is to minimize losses by providing restructuring expertise and maximizing repayments.

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, the two further impairment provision types described in the Impaired Loans section lead to the immediate default of the customer. All exposure-bearing products of the customer who is defaulted are classified as non-performing loans.
2) Risk class 8 contains all customers that are classified as in default according to the CRR definition.
3) EBA/ITS/2013/03/rev1 issued on 24 July 2014.

Early recognition of troubled assets

Customers that raise flags for various reasons (i.e. a significant decline in the stock price, a rise in CDS spreads, general deterioration of creditworthiness, negative reports in the news, unusual risk concentrations or other relevant reasons) are placed on a review list and discussed at the exposure review meeting within the Risk organization. Customers on this list are subject to stringent review and monitoring.

Retail Banking and Small Business

The Retail Banking and Small Business portfolio is comprised of 47% mortgages, 32% consumer loans, 14% social housing and 7% small business loans. The portfolio is characterized by strong collateral coverage in the secured products (65% LTV across mortgage portfolio, 59% in small business loans and 51% across the social housing portfolio). New business volumes were originated primarily from consumer loans (51%) and mortgages (40%). The core products have well-defined underwriting standards that focus on collateral coverage, overall customer indebtedness and assessing customers' ability to service the loan. Additionally, active portfolio management (i.e. delinquency reporting, trend analysis, regional concentration analysis, NPL remediation) is a key component to proactively manage the risk in this portfolio.

Having well defined policies, procedures and analytical tools related to portfolio management are essential to managing risk in this retail, flow-oriented business. The credit risk is measured continuously by the following methods:

– Portfolio trends in terms of risk class distribution

– Portfolio trends in terms of overdue/late payments

– Portfolio trends for defaulted loan facilities

– Portfolio trends in terms of losses

– Scorecard performance: Approval rate and manual scoring for decision cancellations

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

Furthermore, the risk from new business is managed using clear and strict credit guidelines. Decisions at the point of sale are taken on the basis of automated scoring systems or, in certain cases, manual decisions by the Risk department. A key focus in this portfolio is on compliance with policies and ensuring high data quality. A central monitoring process ensures ongoing quality assurance.

Credit portfolio and bonds by products

	Book value		NPL ratio[1]	NPL coverage ratio	LTV[2]
in EUR million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2014**	**31.12.2014**
Mortgage loans	4,417	4,068	2.4%	94.9%	65.0%
Consumer loans	2,979	2,978	4.6%	94.9%	n/a
Social housing	1,340	1,457	0.2%	73.7%	51.0%
Small business loans	579	697	7.7%	93.5%	59.0%
Total	**9,315**	**9,200**	**3.2%**	**92.0%**	**57.1%**

1) The NPL ratio reflects a gross perspective.
2) The LTV for the total unprovisioned outstandings past due is close to the above shown LTVs.

The mortgage portfolio is characterized by low LTVs, low NPL ratio, high coverage ratio and good geographic diversification. The weighted average life of the mortgage portfolio is less than 15 years. Mortgages comprise both EUR-denominated and CHF-denominated mortgages. The CHF-denominated mortgage portfolio was EUR 1.5 billion at year-end 2014. This is a portfolio that is proactively being managed down and/or converted to EUR-denominated loans. The volume in CHF-denominated mortgages was reduced by 9% in 2014 and is down by over EUR 1 billion since the discontinuation of the product in 2008 (reduction of 35%). Specific programs have been in place for the past few years that were established between the Risk and Market organizations to convert customers to EUR-denominated loans. The LTV as of year-end was 73%.

The consumer loan portfolio is comprised of unsecured one-stop and online loans, overdrafts and a mix of leasing assets (consumer auto, real estate and equipment leasing).

The focus has been on developing robust risk scorecards and processes to support the growth of this core segment. The risk profile of the portfolio is characterized by a weighted average life of less than three years. All the delinquency trends remained stable.

The overall social housing portfolio shows LTVs of 51%. Small business loans are proactively monitored to ensure the potential identification of weakening credits and risk mitigation as required by the risk portfolio management group.

The overall NPL and coverage ratios reflect a stable and low-risk portfolio. Significant resources have been allocated and investments made over the past few years to address legacy NPL portfolios (primarily sold in the past few years), to enhance early and late stage collection processes / capabilities and to develop a proactive approach of dealing with NPLs both from an Operations and Risk standpoint.

Forbearance by products

	Consumer loans		Mortgage loans		Small business loans		Social housing	
in EUR million	**31.12. 2014**	**31.12. 2013**	**31.12. 2014**	**31.12. 2013**	**31.12. 2014**	**31.12. 2013**	**31.12. 2014**	**31.12. 2013**
Austria	**53**	**80**	**58**	**100**	**20**	**40**	**6**	**7**
thereof non-performing	11	25	24	43	9	15	3	4
Impairments	4	18	6	13	2	6	1	0
Collateral	9	10	46	77	14	29	3	4

By analyzing the type of the identified forbearance, the most common measure was recognized in changes in interest and conditions (approximately 55% contracts), followed by workout and refinancing (approximately 35% contracts) and extensions of the repayment schedule (approximately 10% contracts). Interest income recognized in respect of forborne assets amounts to EUR 4.4 million. Actual risk costs for forborne exposures (impairments and derecognition in 2014) amount to EUR 5.6 million. 74.5% of forborne volume are up to 30 days past due, 7.4% between 30 and 90 and 18.1% more than 90 days past due as of 31 December 2014. Due to steady optimization of internal processes, figures improved significantly compared to 2013. In particular, sizable effort on the identification of deferred claims has been carried out in compliance with EBA Implementing Technical Standards in order to provide data for supervisory reporting on forbearance and non-performing exposures.

Days past due – credit quality

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure full repayment of loans.

The total retail portfolio is 98.7% current (i.e. no days past due). In comparison to 2013, this is an improvement of 0.3 pts. Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results prove the good quality of the portfolio.

	Consumer loans		Mortgage loans		Small business loans		Social housing loans	
in EUR million	**31.12. 2014**	**31.12. 2013**	**31.12. 2014**	**31.12. 2013**	**31.12. 2014**	**31.12. 2013**	**31.12. 2014**	**31.12. 2013**
Total	**2,979**	**2,978**	**4,417**	**4,068**	**579**	**697**	**1,340**	**1,457**
1–30 days	0.7%	0.7%	0.2%	0.2%	1.0%	1.7%	0.0%	0.0%
31–60 days	0.2%	0.2%	0.1%	0.1%	0.2%	0.4%	0.0%	0.0%
61–90 days	0.1%	0.1%	0.0%	0.1%	0.2%	0.3%	0.0%	0.0%
NPL ratio[1)]	4.6%	3.9%	2.4%	2.8%	7.7%	7.4%	0.2%	0.3%
NPL LLP coverage ratio	81.6%	94.3%	30.3%	28.4%	43.5%	39.3%	28.7%	11.8%

1) The NPL ratio reflects a gross perspective.

Retail assets - Regional distribution

in EUR million	Book value 31.12.2014	Book value 31.12.2013	Relative value 31.12.2014	Relative value 31.12.2013	NPL ratio[1)] 31.12.2014	NPL coverage ratio 31.12.2014
Vienna	2,664	2,719	28.6%	29.6%	3.4%	90.6%
Styria	1,852	1,792	19.9%	19.5%	1.9%	89.4%
Lower Austria	1,717	1,607	18.4%	17.5%	3.1%	90.1%
Tyrol/Vorarlberg	790	806	8.5%	8.8%	4.2%	93.6%
Upper Austria	725	721	7.8%	7.8%	3.2%	88.9%
Carinthia	704	694	7.6%	7.5%	2.8%	92.2%
Salzburg	446	446	4.8%	4.8%	3.5%	93.7%
Burgenland	418	414	4.5%	4.5%	2.3%	87.8%
Total	**9,315**	**9,200**	**100.0%**	**100.0%**	**3.2%**	**92.0%**

1) The NPL ratio reflects a gross perspective.

The portfolio is regionally diverse across Austria, with two thirds of the exposure distributed across the stronger economic regions of Vienna, Styria and Lower Austria.

Corporate Lending and Investments

in EUR million	Book value 31.12.2014	Book value 31.12.2013	NPL ratio[1)] 31.12.2014	NPL coverage ratio 31.12.2014	Investment grade 31.12.2014
Austrian Corporate Business	7,791	8,896	1.9%	81.1%	83.2%
International Business	6,027	4,143	0.0%	n/a	81.0%
IB Coporates	3,869	2,761	0.0%	n/a	76.0%
IB Real Estate	2,157	1,382	0.0%	n/a	90.0%
Total	**13,817**	**13,039**	**1.2%**	**81.1%**	**82.2%**

1) The NPL ratio reflects a gross perspective.

The Corporate Lending and Investments business is split between domestic Austrian Corporate and Public Sector assets (56%) and the International Business assets (44%) and was characterized by proactive risk management, disciplined growth in stable international Western countries, continued exit of non-core CEE assets and maintaining a disciplined approach to risk-adjusted pricing. The overall portfolio is comprised of over 80% investment grade between both Austrian and international assets. The total NPL ratio reflects the high credit quality of the business and was further reduced by 1.7pts from 2.9% to 1.2% in 2014 due to active portfolio management.

All material credit decisions are taken within a specific credit committee that meets weekly and is comprised of the majority of Managing Board members of BAWAG P.S.K. Individual credit applications are thoroughly reviewed, discussed and voted on. The Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international experience. For loan applications below a certain threshold, risk managers are granted authority to approve credits outside of the formal credit committee.

Within the Austrian Corporate business, the focus is on managing credit risks based on customer-specific financial profiles, industry limits and risk-adjusted returns. A great deal of effort and resources has been directed towards proactive risk management. This entails separating customers with solid financial standing and future growth prospects from those with a weakening credit profile and/or not meeting acceptable profitability metrics based on risk-adjusted returns. This disciplined proactive risk management approach has led to the continued deleveraging of non-core low yielding assets and disciplined growth in the core prime customer base.

The growth in International Business has been characterized by high-quality individual credits, solid credit metrics (e.g. LTV and debt yield for real estate / portfolio transactions and leverage ratios for corporate transactions). The international corporate business is conservatively managed with a low Debt/EBITDA ratio of <4x and a very favorable risk/return ratio. The international real estate and portfolio-lending transactions have an average LTV of less than 60% and diverse geographic distribution. The high credit quality of the international business was further validated by the Asset Quality Review (AQR) of BAWAG P.S.K., which covered 100% of all international credits and resulted in no issues or adjustments identified.

Additionally, the Risk organization continued to support the Group's overall strategy of exiting CEE markets. Overall, the CEE loan portfolio was further reduced by EUR 427 million (a reduction of 67%) with immaterial losses. The current CEE loan portfolio is EUR 212 million with NPLs below EUR 20 million (NPL coverage ratio 77%). The goal is to fully exit CEE loan assets.

Currency distribution of the credit and bond portfolio

	Book value		Relative value	
in EUR million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
EUR	10.330	10.898	74,8%	83,6%
USD	1.870	893	13,5%	6,8%
GBP	1.056	622	7,6%	4,8%
CHF	519	559	3,8%	4,3%
Others	42	67	0,3%	0,5%
Total	**13.817**	**13.039**	**100,0%**	**100,0%**

Forbearance

The most common measures relate to customer workouts and refinancing (approximately 95% of contracts) followed by changes in interest, contractual terms and extensions of the repayment schedule (approximately 5% of contracts). Interest income recognized in respect of forborne assets amounts to EUR 4.0 million. Actual risk costs for forborne exposures (impairments and derecognition in 2014) amount to EUR 9.5 million. 81.3% of forborne volume are up to 30 days past due, 0.7% between 30 and 90 and 18.0% more than 90 days past due as of 31 December 2014.

in EUR million	**31.12.2014**	**31.12.2013**
Forborne	184	291
thereof non-performing	77	194
Impairments	29	111
Collateral	91	101

Particular risk concentrations in the credit portfolio

A large focus of risk management in the Corporate Lending and Investments segment is centered around managing concentration risk. Concentration risk arises from both large exposures in individual customer segments or large industry / country / foreign currency exposures.

The framework for the management of concentration risk is based on the requirements imposed by the senior management of BAWAG P.S.K. in line with the rules and recommendations of national and international regulators. Concentration risks are managed, limited and reported to the Managing Board of BAWAG P.S.K. AG as part of the overall monthly risk management reporting.

The principles and methodological framework for the measurement and monitoring of these credit risk concentrations are outlined in risk manuals and guidelines.

Concentration risks at the level of individual transactions and products are managed in a sub-portfolio category. Country and sector limits are managed using a standard process in accordance with internal guidelines.

Concentration risk at the level of individual borrowers and groups of affiliated customers as well as for sectors, countries and currencies is quantified on the basis of allocated economic capital. Adapted risk-weighted assets form the methodological basis in accordance with IRB standards.

Corresponding limits and warning thresholds are specified for countries, sectors, currencies and groups of customers and form an integral part of the management of overall risk in the Group. All limits are monitored on an ongoing basis and in accordance with the estimated risk potential.

Risk concentrations by industry segmentation

in EUR million	Book value 31.12.2014	31.12.2013	Relative value 31.12.2014	31.12.2013
Government	2,343	2,563	17.0%	19.7%
Public Sector	1,871	1,982	13.5%	15.2%
Portfolio Financing	1,691	663	12.2%	5.1%
Real Estate	1,348	1,609	9.8%	12.3%
Pharmaceuticals & Health Care	874	447	6.3%	3.4%
Services	531	542	3.8%	4.2%
Retail – Food	513	482	3.7%	3.7%
Financial Institutions	417	330	3.0%	2.5%
Commodity	407	422	2.9%	3.2%
Automotive	406	316	2.9%	2.4%
Investment Funds	384	5	2.8%	0.0%
Hotel, Gaming & Leisure	381	452	2.8%	3.5%
Telecommunication & Electronics	364	277	2.6%	2.1%
Retail – Non-food	356	623	2.6%	4.8%
Beverages, Food & Tobacco	337	234	2.4%	1.8%
Transport	304	220	2.2%	1.7%
Wood & Paper	203	256	1.5%	2.0%
Media	188	241	1.4%	1.8%
Utilities	186	308	1.3%	2.4%
Construction & Building Materials	167	304	1.2%	2.3%
Social Housing	161	160	1.2%	1.2%
Engineering	128	136	0.9%	1.0%
Chemicals	92	119	0.7%	0.9%
Others	83	274	0.6%	2.1%
NGO	51	49	0.4%	0.4%
Leasing	31	25	0.2%	0.2%
Total	**13,817**	**13,039**	**100.0%**	**100.0%**

Treasury Services and Markets

in EUR million	Book value 31.12.2014	31.12.2013	Investment grade 31.12.2014
Banks	4,331	3,873	99.0%
Sovereigns	814	705	100.0%
CLOs	610	443	100.0%
Total	**5,755**	**5,021**	**99.2%**

The Treasury Services and Markets segment includes interest rate and currency risk positions, capital market activities and comprises the Group's portfolio of debt securities. The portfolio was rebalanced on a macro level to shift investments to stable economies and focus on high-quality securities (high-quality covered and uncovered bank bonds, sovereign investments and high-quality CLOs). The portfolio consists primarily of investments in Europe and the United States with an external investment grade rating.

The portfolio is comprised of 100% investment grade-rated securities, of which 85% are rated in the single "A" category or higher. Exposure to CEE securities represented ~5%, with 95% rated in the single "A" rating or higher. The portfolio has no direct exposure to Russia, Hungary or South-Eastern Europe as of 31 December 2014.

A selective CLO portfolio with a carrying value of EUR 610 million is managed within the framework of the overall investment strategy. Of these securities, 91% are rated AAA and the remaining 9% are rated AA. The majority (91%) is comprised of European CLOs with the residual 9% CLOs in the United States. The weighted average life (WAL) of the investments is 3.7 years. Internal valuation models are used to determine the fair value of CLOs for which there is no active market. The CLO model is calibrated to actively traded instruments and uses all available market data (such as yield curves, CDS spreads, loan prices, etc.) as inputs. The portfolio is constantly monitored and meets both risk as well as profitability criteria, which is reflected in both the low risk cost and risk-adjusted capital returns.

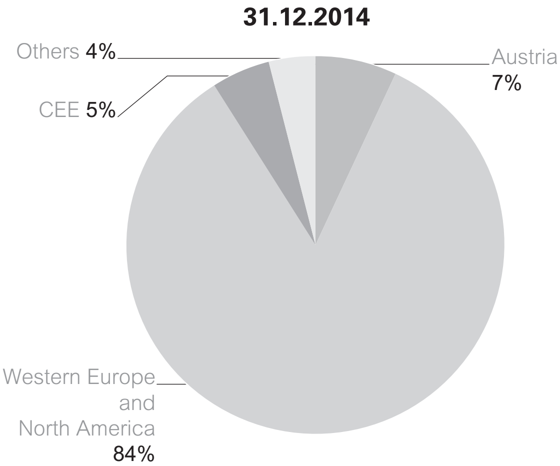
The Treasury Services and Markets segment comprises no forborne customers nor any non-performing loans.

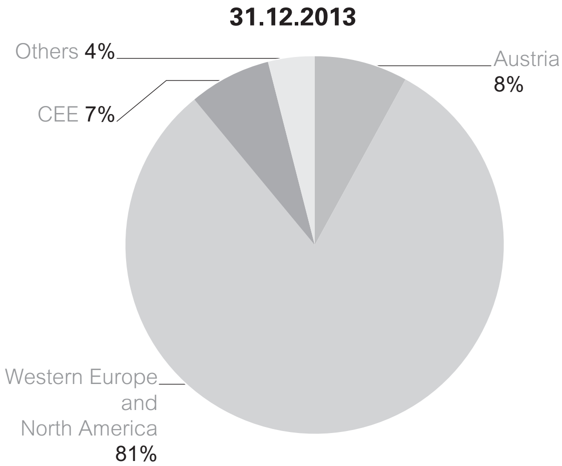
Currency distribution of the credit and securities portfolio

	Book value		Relative value	
in EUR million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
EUR	5,514	4,827	95.8%	96.1%
USD	217	167	3.8%	3.3%
Others	24	27	0.4%	0.5%
Total	**5,755**	**5,021**	**100.0%**	**100.0%**

Geographical distribution of the securities portfolio[1)]

Geographical distribution of bonds





Corporate Center

The Corporate Center is comprised primarily of the Group's liquidity reserve, positive market values from derivatives, certain equity participations, and the Asset-Liability Management (ALM) function of the Group. More than 75% of assets are related to the ALM activities, mainly consisting of the liquidity reserve and positive market values from derivatives, which are used for hedging purposes. Assets were reduced by over 38%, primarily driven by a reduction of assets related to excess liquidity in money market positions.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential impairments and low profitability of non-consolidated equity investments. Participation risk does not include operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such.

Impairment tests are conducted every year to validate the values of the equity investments in the Group's portfolio. These impairment tests are completed on the basis of the planning projections (budgeted financial statements – i.e. cash flow, P&L and balance sheet) prepared for future periods by the management of each entity. The after-tax results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the company based on the Group's shareholding is then compared with the carrying amount of the investment.

In contrast to the procedure described above, more simplified techniques are adopted for micro-participations and those reporting book values covered either by pro rata equity, by pro rata capitalized average earnings before taxes of the last three years or by other measurements of value – e.g. net asset values for real estate companies.

1) This includes Great Britain with 13% (2013: 12%), United States with 11% (2013: 13%), France with 5% (2%) and Germany with 4% (4%).

The overall results of the impairment tests are reviewed and confirmed by the Participation Risk team of BAWAG P.S.K.

54 | Market risk

Market risk is the risk of loss 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.

In 2014, BAWAG P.S.K. received the official report on the successful on-site review of the market risks in the banking book by the local regulator (Austrian National Bank). The processes and models used in this area were judged to be appropriate and adequate. This is in particular due to the constant development and refinement of the risk measurement and analysis tools. This work was continued in 2014.

Particular emphasis is placed upon market risk identification, measurement, analysis and management performed by the Market Risk division for all market related risks in the Group. The applied market risk limits consist of value-at-risk, sensitivity, volume and worst-case limits and are approved by the Managing Board of BAWAG P.S.K.

Market risk in the trading book

The Group's strategy to discontinue proprietary trading activities resulted in a further reduction in risk and derivative volume in the trading book in 2014.

The Group uses an officially approved internal model for value-at-risk (VaR) for the purpose of internal risk monitoring and reporting to the supervisory authorities. The model covers the following risk categories: interest rate, equity market and foreign exchange risk. The regulatory capital requirements for specific risk in the trading book are calculated using the legally standardized measurement method. Stressed value-at-risk (sVaR) must be taken into account in addition to standard VaR in determining the minimum capital requirements. The VaR limits are supplemented by sensitivity and worst-case limits.

The following table depicts the total trading Book VaR based on a confidence interval of 99% and a holding period of one day.

VaR trading book

in EUR thousand	**31.12.2014**	**31.12.2013**
Average VaR	(243)	(380)
Year-end VaR	(316)	(251)

Market risk in the banking book

The primary components of market risk for the BAWAG Holding Group are interest rate risk, credit spread risk and liquidity risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury Services and Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the Group level as determined by the Controlling / ALM division. The Market Risk division reports to the SALCO on a daily basis for some areas as well as monthly at the Group level on limit utilization and the distribution of risk.

The target interest rate risk structure mandated by the SALCO is implemented by the Controlling / ALM and Treasury Services and Markets divisions. Interest rate derivatives are employed to this end in order to manage interest rate risk. The BAWAG Holding Group uses interest rate derivatives:

– to implement the interest risk strategy within the requirements and limits defined by the SALCO,

– to manage the sensitivity of the valuation result and the revaluation reserve,

– and to hedge the economic risk position thereby taking the accounting treatment into consideration.

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

– Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities

– Portfolio fair value hedge ('EU carve-out'): application to sub portfolios of sight deposits that are available for the long term after derivation of a bottom layer

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point. The following table depicts the Group's interest rate risk sensitivities as of 31 December 2014 on the basis of the PVBP concept:

Interest rate sensitivity

in EUR thousand	**<1Y**	**1Y–3Y**	**3Y–5Y**	**5Y–7Y**	**7Y–10Y**	**>10Y**	**Total**
EUR	(74)	(145)	(161)	(217)	(36)	(4)	**(637)**
USD	(38)	(30)	(5)	12	(9)	6	**(65)**
CHF	10	0	(3)	(4)	(4)	(4)	**(5)**
GBP	0	(2)	0	0	0	0	**(3)**
Other currencies	2	(1)	0	4	(3)	(7)	**(6)**
Total 31.12.2014	**(101)**	**(178)**	**(170)**	**(205)**	**(52)**	**(10)**	**(716)**
Total 31.12.2013	(97)	13	(98)	(119)	54	(98)	**(346)**

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to minus EUR 266 thousand on 31 December 2014 (31 December 2013: minus EUR 104 thousand). For the available-for-sale financial assets, the sensitivity amounted to minus EUR 662 thousand (31 December 2013: minus EUR 588 thousand).

Furthermore, a value-at-risk calculation for the Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by the Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The following table shows the total credit spread sensitivity of the Group along with the breakout by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income:

Credit spread sensitivity

in EUR thousand	**31.12.2014**	**31.12.2013**
Total portfolio	(2,418)	(2,021)
Financial assets designated at fair value through profit or loss	302	358
Available-for-sale financial assets	(1,223)	(1,425)
Held-to-maturity assets & Loans and receivables	(1,497)	(954)

The risk indicators "value at risk" and "expected shortfall" are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for the Group as a whole in the ICAAP process and is part of the Group-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and backtesting.

FX risk in the banking book

The extent of open foreign exchange positions in the Group's banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

55 | Liquidity risk

The Asset-Liability Management (ALM) department is responsible for central liquidity management of the Group.

Liquidity management

The liquidity management is performed under a Group perspective.

For managing the short-term liquidity, a 30-day liquidity forecast is prepared daily for ongoing liquidity position management by Treasury Services and Markets.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared every month and reported in the SALCO. It also takes scenario calculations for planned measures and various assumptions about customer behavior into account. The regulatory and internal liquidity indicators are also projected.

Liquidity stress tests are used to determine the outflow of liquidity that may be incurred under different stress scenarios (systemic stress, idiosyncratic stress, combined stress) in order to calibrate the liquidity buffer.

Long-term liquidity management is conducted for the coming five years as part of the annual planning process. Strategic measures are also analyzed during the course of the year.

Liquidity buffer

The liquidity buffer consists of a portfolio of liquid assets that can be rapidly accessed in a stress situation to obtain liquidity. Asset-Liability Management takes the necessary measures to ensure that the liquidity buffer is sufficiently diversified and its size adequate for the Group's anticipated needs. Additionally, Asset-Liability Management centrally manages the liquidity buffer required for LCR purposes in designated portfolios.

The table below shows the composition of the liquidity buffer on the basis of the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in EUR million	**31.12.2014**	**31.12.2013**
Money market	750	2,940
Bonds	4,699	3,420
ECB pledged credit claims	1,929	1,610
Short-term liquidity buffer	**7,378**	**7,970**
Bonds	1,960	1,850
Credit claims available for covered bonds	828	880
Medium-term liquidity buffer	**2,788**	**2,730**
Total	**10,166**	**10,700**

Maturity analysis of contractual undiscounted cash flows of financial assets and liabilities

in EUR million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
						31.12.2014
Assets						
Loans to customers	27,075	2,254	463	1,751	9,821	12,786
Bonds	8,549	90	244	752	5,296	2,167
Money market assets	862	783	4	75	0	0
Subtotal	**36,486**	**3,126**	**712**	**2,578**	**15,117**	**14,953**
Liabilities						
Deposits from banks	(2,739)	(757)	(79)	(164)	(1,343)	(396)
Deposits from customers	(21,247)	(17,306)	(681)	(1,741)	(1,372)	(147)
Debt securities issued	(6,649)	(62)	(71)	(1,826)	(1,998)	(2,692)
Subtotal	**(30,635)**	**(18,125)**	**(830)**	**(3,731)**	**(4,714)**	**(3,235)**
Derivatives						
Inflow	7,501	1,548	858	994	3,105	996
Outflow	(6,672)	(1,465)	(767)	(971)	(2,637)	(832)
Other off-balance-sheet financial obligations	(1,841)	(1,841)	0	0	0	0
Total	**4,839**	**(16,756)**	**(28)**	**(1,131)**	**10,871**	**11,882**

in EUR million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
						31.12.2013
Assets						
Loans to customers	27,023	2,688	467	1,961	8,860	13,047
Bonds	9,421	119	327	1,297	5,869	1,809
Money market assets	3,544	3,069	472	2	0	0
Subtotal	**39,987**	**5,875**	**1,266**	**3,261**	**14,730**	**14,856**
Liabilities						
Deposits from banks	(1,677)	(559)	(14)	(38)	(558)	(508)
Deposits from customers	(22,179)	(16,465)	(832)	(2,502)	(2,222)	(158)
Debt securities issued	(8,828)	(21)	(1,100)	(576)	(3,296)	(3,835)
Subtotal	**(32,684)**	**(17,045)**	**(1,946)**	**(3,115)**	**(6,076)**	**(4,502)**
Derivatives						
Inflow	6,424	1,213	882	1,072	2,701	555
Outflow	(5,982)	(1,191)	(861)	(1,001)	(2,501)	(428)
Other off-balance-sheet financial obligations	(2,216)	(2,216)	0	0	0	0
Total	**5,529**	**(13,364)**	**(659)**	**217**	**8,853**	**10,481**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial assets and liabilities. They are assigned to time buckets on the basis of their contractual maturities. All daily callable loans and deposits were placed into the shortest time bucket. In case of call or put options, the end of the term equals the next day on which the option can be exercised.

The liquidity management already takes the new regulatory liquidity ratios into account. Due to the current liquidity structure of the Group, both the Liquidity Coverage Ratio of 134% and the Net Stable Funding Ratio[1)] of 122% significantly exceed the stipulated future regulatory requirements.

1) Determined based on the calculation methodology of the Quantitative Impact Studies.

The main focus of the funding strategy is on retail deposits, which reduces the reliance on capital markets as well as interbank markets. This is reflected in a wholesale funding ratio[1)] of below 30%.

56 | Operational risk

The Group continues to apply the Standardized Approach to assess operational risk, resulting in RWAs of EUR 1.6 billion in 2014. However, the realized OpRisk losses over the last few years were significantly lower than the assessed risk under the Standardized Approach. The OpRisk RWAs are assigned as part of the Corporate Center segment.

For the purpose of internal economic steering (ICAAP), a statistical model is used to calculate the Value-at-Risk, which results from operational risks.

In addition to recipient-oriented reporting, the risk organization applies a risk control self-assessment (RCSA) tool in managing operational risk. All business units assess their material operational risks and the effectiveness of their control measures on a yearly basis applying a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of specific remediation measures is required.

A clear organizational structure and authorization levels form the basis of OpRisk limits. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are designed to allow the Group to manage OpRisk.

1) Wholesale funding ratio = 1 – (customer liabilities/(financial liabilities – liabilities held for trading)).

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

57 | Fiduciary assets

in EUR million	31.12.2014	31.12.2013
Fiduciary assets	**189**	**186**
Receivables from customers	189	186
Fiduciary liabilities	**189**	**186**
Deposits from banks	25	23
Deposits from customers	164	163

58 | Breakdown of securities pursuant to the Federal Banking Act (BWG)

The following table breaks securities down in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2014 (IFRS figures):

		Listed			
in EUR million	Not listed	Total	Loans and receivables	Other measurements	BAWAG Holding Group Total 2014
Bonds and other fixed income securities	1,294	4,710	963	3,747	**6,004**
Shares and other variable income securities	4	3	–	3	**7**
Shares in associates and other shares	83	–	–	–	**83**
Shares in non-consolidated subsidiaries	19	–	–	–	**19**
Total securities	**1,400**	**4,713**	**963**	**3,750**	**6,113**

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG was EUR 156 million (2013: EUR 110 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG was EUR 15 million (2013: EUR 24 million).

Liabilities and subordinated capital amounting to a repayment amount of EUR 1,740 million will come due under the corresponding contracts in 2015.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are all bullet bonds. Supplementary and subordinated capital bonds are subscribed by private Austrian investors and sold to major domestic and international investors.

As of 31 December 2014, the average weighted nominal interest rate on supplementary and subordinated capital bonds was 5.84% (2013: 5.93%), and the average remaining term to maturity was 5.3 years (2013: 6.2 years).

59 | Collateral received

Different types of collateral have been pledged to the Group as part of its business transactions. To reduce credit risk for derivative instruments, the Group received consideration (collateral deals) in the amount of EUR 580 million (2013: EUR 390 million) and paid consideration (collateral deals) in the amount of EUR 320 million (2013: EUR 661 million).

in EUR million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	Total
Financial collateral			
Stocks	53	79	**132**
Cash deposits	61	572	**633**
Bonds	79	2	**81**
Real Estate			
Commercial properties	661	27	**688**
Private properties	5,351	76	**5,427**
Personal collateral			
Guarantees	2,028	25	**2,053**
Credit derivatives	–	52	**52**
Other forms of collateral			
Assignation of claims	13	2	**15**
Life insurance policies	211	5	**216**
Collateral received	**8,457**	**840**	**9,297**

60 | Hybrid capital

The consolidated financial statements recognize hybrid capital within the meaning of Article 63 CRR in conjunction with Article 18 of the Austrian CRR Supplementary Regulation in the amount of EUR 83 million (2013: EUR 142 million). The entirety of this amount was reported on the IFRS Statement of Financial Position in the line item Supplementary capital and subordinated debt capital.

61 | Human resources

Headcount – salaried employees

	31.12.2014	31.12.2013
Number of employees on reporting date	3,804	4,194
Average number of employees	4,122	4,353

Full-time equivalents – salaried employees

	31.12.2014	31.12.2013
Number of employees on reporting date	3,287	3,697
Average number of employees	3,593	3,859
Active employees[1)]	2,838	3,183

1) Excluding employees on any form of temporary leave or who have entered an agreement under a social compensation scheme; 2013 figure as of 1 January 2014.

62 | Branches

in EUR million		31.12.2014
Name of branch	BAWAG P.S.K. International	BAWAG Malta Bank Limited
Business segment	International Business	Credit institution
Country of residence	Great Britain	Malta
Net interest income	0.0	8.8
Operating income[1)]	1.1	4.4
Number of full-time employees	4	8
Profit before tax[1)]	(0.5)	2.7
Income tax	0.0	(2.9)
Government aid received	0	0

1) BAWAG P.S.K. International: income is based on internal funds transfer pricing.

63 | Trading book

BAWAG Holding Group maintains a securities trading book, which breaks down by volume as follows:

in EUR million	31.12.2014	31.12.2013
Derivative financial instruments in the trading book (nominal value)	15,406	19,768
Money market transactions (book values, recognised under receivables from credit institutions and payables to credit institutions)	131	176
Trading book by volume	**15,538**	**19,944**

64 | Geographical regions

Gross income of BAWAG Holding Group relates to the following geographical regions, with the split being based on the domicile of the customer. Income from derivative and trading transactions is presented as domestic due to the fact that trading is centralized in Vienna and no material country risks arise as most transactions are collateralized.

in EUR million	Domestic	Western Europe	Central and Eastern Europe	North America	Rest of the world	Total
Interest and similar income	707.0	297.4	21.7	42.6	21.2	**1,089.9**
Income from securities and equity interests	9.8	0.0	0.0	0.0	0.0	**9.8**
Fee and commission income	299.6	1.8	0.3	0.3	0.1	**302.0**
Gains and losses on financial instruments	32.2	6.4	0.0	0.0	0.0	**38.7**
Other operating income	11.7	8.6	0.0	0.0	0.0	**20.3**

65 | Other disclosures required by BWG and Austrian GAAP (UGB) including remuneration policy

The Statement of Financial Position entry for Land and buildings shows property with a carrying amount of EUR 8 million (2013: EUR 8 million).

Obligations arising from the use of tangible non-current assets not recognized on the Statement of Financial Position were expected to come to EUR 24 million for the period subsequent to 2014 (2013: EUR 24 million); the expected amount in the five years following the year under review was EUR 93 million (2013: EUR 93 million).

The Statement of Financial Position as of 31 December 2014 contains accrued interest on supplementary capital bonds in the amount of EUR 3 million (2013: EUR 4 million).

Expenses for subordinated liabilities amounted to EUR 58 million (2013: EUR 42 million).

Expenses for BAWAG Holding's group auditor in the current financial year amount to EUR 1.8 million and comprise audit fees in the amount of EUR 1.7 million, tax advisory fees of EUR 0.0 million as well as other advisory fees in the amount of EUR 0.1 million.

As of 31 December 2014, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 0.91% (2013: 0.52%).

The Company is a member of the group of consolidation headed by Promontoria Sacher Holding N.V., which is situated in Baarn, The Netherlands. Pursuant to section 30 paragraph 1 and 2 BWG Promontoria Sacher Holding N.V. is the superordinate financial holding company of the group of credit institutions. In accordance with section 30 paragraph 5 and 6 BWG, BAWAG P.S.K. as the superordinate credit institution is responsible for the compliance of the provisions of the Austrian Banking Act which are applicable to the group of credit institutions and prepares the consolidated financial statements of Promontoria Sacher Holding N.V. The consolidated financial statements of Promontoria Sacher Holding N.V. are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG and are available at BAWAG P.S.K.'s headquarters in Vienna at the department of Investor Relations.

BAWAG Holding Group uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG P.S.K. at: www.bawagpsk.com/BAWAGPSK/IR/EN/Financial-Results.

Remuneration Policy

BAWAG P.S.K. AG has a Remuneration Committee, which is a Supervisory Board committee. The Remuneration Committee specifies the remuneration policy, monitors its implementation and submits regular reports on its activities to the full Supervisory Board of BAWAG P.S.K. AG. The committee consists of the chairman of the Supervisory Board, who heads it, and five further Supervisory Board members, including two members of the Works Council.

BAWAG P.S.K. AG's Remuneration Committee has adopted a remuneration guideline that applies to the members of the Managing Board and the employees of the Group and that takes into account the principles of the EU's CRD IV Directive, the CEBS guideline and the associated provision of the Austrian Banking Act.

For employees whose activities have a material influence on the Bank's risk profile, this guideline stipulates a remuneration policy that does not impede effective risk management. It is designed to align the objectives of the employees with the long-term interests of the Bank and to ensure an appropriate balance between fixed and variable remuneration components. It also takes into account the legal regulations stipulating that the policy must be applied to the management and to risk purchasers, to employees with controlling duties, as well as to employees who are in the same wage group as the management and the risk purchasers and whose activities have a material influence on the risk profile of the Bank.

The annual budget for variable remuneration components is based on the degree to which the Bank achieves its earnings targets.

Approval for the payment of a bonus proposed by the Managing Board is granted by the Remuneration Committee, taking into account the market conditions and development, the appropriateness of bonus payments, the development of risk and the strengthening of the Bank's equity base.

The rules were implemented in the remuneration guideline as follows:

– To ensure risk adequacy, the variable remuneration must not provide an incentive to enter into inappropriate risks.

– To ensure sustainability, success is determined based on a longer-term observation period. For this reason, parts of the bonus are distributed over a period of up to five years. The payment of the retained portions is subject to strict Bank success criteria.

– Because the Bank has no marketable shares, a "phantom scheme" was implemented that is also tied to the Bank's business performance.

– The appropriateness and market adequacy of remuneration is ensured, applying a balanced relationship between fixed and variable components.

The variable remuneration is determined on the basis of the individual's success (in quantitative and qualitative terms) as well as on the success of the respective organizational unit and the Bank.

For individual matters concerning the remuneration of Managing Board members, a Committee for Management Board Matters has been set up taking into account the framework of the Austrian Labor Constitution Act.

66 | Date of release of publication

The Group financial statements were approved by the Board of Managing Directors for submission to the Supervisory Board on 24 March 2015. The Supervisory Board is responsible for reviewing and acknowledges the Group financial statements.

67 | Events after the reporting date

BAWAG P.S.K. INVEST GmbH

After having received all regulatory approvals, the closing of the sale of all shares of BAWAG P.S.K. INVEST GmbH to Amundi S.A. took place on 9 February 2015.

Development of EUR-CHF Exchange Rate

In January 2015, the Swiss National Bank (SNB) withdrew its decision to fix the Euro / Swiss Franc exchange rate, which led to a sharp appreciation of the Swiss Franc against the Euro. The decision of the SNB to unwind the fixing is mainly based on the weakening of the Euro against the US Dollar, which also had negative implications on the Swiss Franc. Recently, however, the Swiss Franc decreased again against the Euro.

BAWAG Holding Group is not exposed to significant foreign currency risk, as all assets denominated in Swiss Franc are refinanced in the same currency or are hedged. BAWAG Holding Group is closely monitoring the effect of the strengthening of the Swiss Franc on its loan portfolio. We have allocated appropriate resources to actively manage the related credit risk.

Vienna, 24 March 2015

Byron Haynes Managing Director	Corey Pinkston Managing Director
Anas Abuzaakouk Managing Director	Jeffrey L. Lomasky Managing Director

STATEMENT OF ALL LEGAL REPRESENTATIVES

"We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces."

Vienna, 24 March 2015

Byron Haynes Managing Director	Corey Pinkston Managing Director
Anas Abuzaakouk Managing Director	Jeffrey L. Lomasky Managing Director

BOARDS AND OFFICERS OF BAWAG HOLDING GMBH

MANAGING BOARD OF BAWAG HOLDING GMBH AS OF 31 DECEMBER 2014

Byron HAYNES

(from 9 November 2009)

Corey PINKSTON

(from 1 August 2012)

Jeffrey L. LOMASKY

(from 1 August 2012)

Anas ABUZAAKOUK

(from 31 July 2014)

THE SUPERVISORY BOARD OF BAWAG HOLDING GMBH AS OF 31 DECEMBER 2014

Chairman

Franklin W. HOBBS

(Member from 4 April 2013, Chairman from 1 August 2013)

Deputy Chairman

Cees MAAS

(from 1 August 2013, previously Chairman from 15 October 2009 until 1 August 2013,
Member of the Supervisory Board from 9 October 2009)

Pieter KORTEWEG

(from 1 August 2013, previously: First Deputy Chairman from 25 March 2010 until 1 August 2013,
Member of the Supervisory Board from 14 September 2007)

Members

André WEISS

(from 4 April 2013)

Frederick HADDAD

(from 4 April 2013)

Anthony J. GUIDO

(from 9 April 2013)

Walter OBLIN

(from 18 April 2012)

Keith TIETJEN

(from 31 July 2014)

AUDITOR'S OPINION

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **BAWAG Holding GmbH**, Vienna, for the fiscal year from 1 January 2014 to 31 December 2014. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2014, the consolidated profit or loss statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the cash flow statement for the fiscal year ended 31 December 2014, and the Notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting Records

The Company's management is responsible for the group accounting records and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of section 245a UGB. This responsibility includes: designing, implementing and maintaining a system of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). These standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the system of internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2014 and of its financial performance and its cash flows for the fiscal year from 1 January 2014 to 31 December 2014, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Group Management Report

Pursuant to statutory provisions, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Group's position. The auditor's report also has to contain a statement as to whether the group management report is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a para 2 UGB are appropriate.

In our opinion, the group management report is consistent with the consolidated financial statements. The disclosures according to section 243a para 2 UGB are appropriate.

Vienna, 24 March 2015

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Peter Bitzyk m.p.   ppa. Mag. Monika Dabrowska m.p.

Certified Public Accountants

The publication or transmission of the consolidated financial statements in a form different from the one we have audited is only permitted with our consent if in the course of doing so reference is made to our audit opinion or our audit. The auditor's opinion only refers to the German version of the consolidated financial statements including the group management report. For any amended version the provision of section 281 para 2 UGB need to be obeyed.

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes
HICP	Harmonized Index of Consumer Prices; basis for a comparative measurement of inflation in Europe and for evaluating the stability of monetary values within the Eurozone
IBNR	Allowance for incurred but not reported losses.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
NPL	Non-performing loan; all customer exposures in default risk class 8, regardless of whether a limit has been breached or the customer is in arrears on an individual account or not.
NPL coverage ratio	The total of impairment write-downs and collateral relative to the NPL exposure.
NPL LLP coverage ratio	Impairment write-downs relative to the NPL exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.

Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.
Value-at-risk (VaR)	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

ISSUER

BAWAG Group AG
Wiesingerstraße 4
1010 Vienna
Austria

LEGAL ADVISORS TO THE COMPANY

Hengeler Mueller Partnerschaft von Rechtsanwälten mbB
Bockenheimer Landstraße 24
60323 Frankfurt
Germany

DORDA Rechtsanwälte GmbH
Universitätsring 10
1010 Vienna
Austria

SCHULTE ROTH & ZABEL LLP
919 Third Avenue
New York, NY 10022
United States

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Citigroup Global Markets Limited
Citigroup Centre,
33 Canada Square, Canary Wharf,
London E14 5LB,
United Kingdom

Credit Suisse Securities (Europe) Limited
One Cabot Square,
London E14 4QJ,
United Kingdom

Goldman Sachs International
Peterborough Court, 133 Fleet Street,
London EC4A 2BB,
United Kingdom

J.P. Morgan Securities plc
25 Bank Street,
London E14 5JP,
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square, Canary Wharf,
London E14 4QA,
United Kingdom

JOINT BOOKRUNNERS

Merrill Lynch International
2 King Edward Street,
London EC1A 1HQ,
United Kingdom

Barclays Bank PLC
5 The North Colonnade,
London E14 4BB,
United Kingdom

UBS Limited
5 Broadgate,
London, EC2M 2QS,
United Kingdom

CO-LEAD MANAGERS

Raiffeisen Centrobank AG
Tegetthoffstraße 1,
1010 Vienna,
Austria

COMMERZBANK Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz),
60311 Frankfurt am Main,
Germany

LEGAL ADVISOR TO THE UNDERWRITERS

Freshfields Bruckhaus Deringer LLP
Seilergasse 16
1010 Vienna
Austria

AUDITORS

Deloitte Audit Wirtschaftsprüfungs GmbH
Renngasse 1
1010 Vienna
Austria

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Porzellangasse 51
1090 Vienna
Austria