CONSOLIDATED ANNUAL REPORT 2022

BAWAG Group

HIGHLIGHTS 2022

"This past year has confirmed one key tenet we have always embraced, the only constant is change." (CEO Anas Abuzaakouk)

€ 509 million
Net profit*
€318.3 million reported

€ 5.81
Earnings per share*
€ 3.64 reported

18.6%
RoTCE*
11.6% reported

35.9%
CIR

€ 100 million
ECL management overlay versus € 61 million at year-end 2021

CHANGED MARKET ENVIRONMENT

Geopolitical conflict
Energy price volatility
Inflation in EU of 10%
ECB exiting negative interest rates
3-month Euribor widening by 270bps
Euro at-or-below parity with the US Dollar

CAPITAL DISTRIBUTIONS

€ 267 million
dividend distributed in 2022

€ 325 million
share buyback with 6.6 million shares cancelled

€ 305 million
dividend to be proposed to AGM in 2023

*Adjusted for the write-off of City of Linz receivable

All 2022 targets achieved

✓ **9% core revenue growth**
€ 1,330 million versus € 1,220 million in 2021

✓ **2% net cost-out**
€ 475 million versus € 485 million in 2021

✓ **~20bps underlying risk cost ratio**
(19bps excluding City of Linz write-off , ECL management overlay)

✓ **>€ 675 million profit before tax**
€ 681 million versus € 600 million in 2021

✓ **> 17% RoTCE**
18.6% (adjusted) versus 16.1% in 2021

✓ **< 38% CIR**
35.9% versus 39.5% in 2021

2025 financial targets accelerated to 2023

> € 825 million profit before tax
versus € 681 million in 2022

> € 7.50 earnings per share
versus € 5.81 in 2022

> € 4.10 dividend per share
versus € 3.70 in 2022

Higher return targets 2023 & beyond

> 20% RoTCE
versus 18.6% (adjusted) in 2022

< 34% CIR
versus 35.9% in 2022

KEY FIGURES

Profit or loss statement (in € million)	**2022 reported**	**2022 adjusted**	2021	Change % adjusted	2020	Change % adjusted
Net interest income	1,021.1	1,021.1	938.3	8.8	915.4	11.5
Net fee and commission income	309.3	309.3	282.1	9.6	254.8	21.4
Core revenues	**1,330.4**	**1,330.4**	**1,220.4**	**9.0**	**1,170.3**	**13.7**
Other income[1)]	(6.4)	(6.4)	8.1	-	3.4	-
Operating income	**1,324.0**	**1,324.0**	**1,228.5**	**7.8**	**1,173.7**	**12.8**
Operating expenses	**(474.8)**	**(474.8)**	**(485.3)**	**(2.2)**	**(519.7)**	**(8.6)**
Pre-provision profit	**849.2**	**849.2**	**743.2**	**14.3**	**653.9**	**29.9**
Regulatory charges	(48.8)	(48.8)	(51.6)	(5.4)	(59.2)	(17.6)
Total risk costs	(376.3)	(122.0)	(95.0)	28.4	(224.6)	(45.7)
Profit before tax	**426.8**	**681.0**	**600.4**	**13.4**	**371.2**	**83.5**
Income taxes	(108.2)	(171.9)	(120.4)	42.8	(85.7)	>100
Net profit	**318.3**	**508.8**	**479.9**	**6.0**	**285.2**	**78.4**

Performance ratios (figures annualized)	**2022 reported**	**2022 adjusted**	2021	Change (pts) adjusted	2020	Change (pts) adjusted
Return on common equity	9.8%	15.6%	13.6%	2.0	8.5%	7.1
Return on tangible common equity	**11.6%**	**18.6%**	**16.1%**	**2.5**	**10.2%**	**8.4**
Net interest margin	2.33%	2.33%	2.27%	0.06	2.29%	0.04
Cost-income ratio	35.9%	35.9%	39.5%	(3.6)	44.3%	(8.4)
Risk costs / interest-bearing assets	0.86%	0.28%	0.23%	0.05	0.56%	(0.30)

Statement of financial position (in € million)	**2022**	2021	Change (%)	2020	Change (%)
Total assets	56,523	56,325	0.4	53,122	6.4
Interest-bearing assets	43,330	42,412	2.2	40,404	7.2
Customer loans	35,763	34,963	2.3	32,129	11.3
Customer deposits and own issues	44,529	42,539	4.7	38,890	14.5
Common equity[2)]	3,215	3,636	(11.6)	3,419	(6.0)
Tangible common equity[2)]	2,693	3,101	(13.2)	2,867	(6.1)
Risk-weighted assets	20,664	20,135	2.6	20,073	2.9

Balance sheet ratios	**2022**	2021	Change (pts)	2020	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**13.5%**	**15.0%**	**(1.5)**	**14.0%**	**(0.5)**
Total capital ratio (fully loaded)	18.5%	20.4%	(1.9)	19.6%	(1.1)
Leverage ratio (fully loaded)	5.6%	6.0%	(0.4)	6.0%	(0.4)
Liquidity coverage ratio (LCR)	225%	239%	(14)	231%	(6)
NPL ratio	0.9%	1.4%	(0.5)	1.5%	(0.6)

Adjusted excludes the write-off of the City of Linz receivable of € 254 million (€ 190 million after tax).
1) The term “Other income” includes gains and losses on financial instruments and other operating income and expenses .
2) Excluding AT1 capital and dividends.
Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 350-352.

SHARE RELATED FIGURES

Share & stock market data	2022 reported	2022 adjusted	2021	Change % adjusted	2020	Change % adjusted
Pre-tax earnings per share (in €)[1)]	4.88	7.78	6.74	15.5	4.17	86.9
After-tax earnings per share (in €)[1)]	3.64	5.81	5.39	7.9	3.20	81.7
Book value per share (in €)	39.14	39.14	40.92	(4.3)	38.88	0.7
Tangible book value per share (in €)	32.78	32.78	34.90	(6.1)	32.60	0.6
Dividend per share (in €)[2)]	3.70	3.70	3.00	23.3	2.59	42.9
Share price high (in €)	57.30	57.30	58.05	(1.3)	44.22	29.6
Share price low (in €)	37.86	37.86	35.94	5.3	20.34	86.1
Closing price (in €)	49.80	49.80	54.20	(8.1)	38.00	31.1
Price/book ratio	1.27	1.27	1.32	(3.9)	0.98	30.2
Price/tangible book ratio	1.52	1.52	1.55	(2.2)	1.17	30.3
Shares outstanding at the end of the period	82,147,160	82,147,160	88,855,047	(7.5)	87,937,130	(6.6)
Weighted average diluted number of outstanding shares	87,500,804	87,500,804	89,077,958	(1.8)	89,121,117	(1.8)
Market capitalization (in € billion)	4.1	4.1	4.8	(15.1)	3.3	22.4

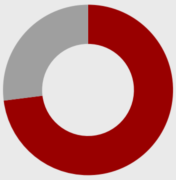
1) Before deduction of AT1 coupon; 2022 Earnings per share after deduction of AT1 coupon pre-tax € 4.60, post-tax € 3.36
2) Based on eop shares incl. respective LTIP tranches

BAWAG GROUP – WHO WE ARE

MULTI-BRAND AND MULTI-CHANNEL COMMERCIAL BANK

OUR MARKETS

Our focus is on Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States.

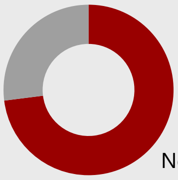


73% DACH/NL

27% Western Europe and United States

OUR CHANNELS

- Physical network focused on high-touch and high-quality advisory services
- Non-branch origination through partnerships and platforms

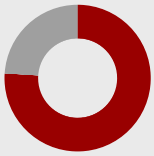


21% Branch origination

79% Non-branch origination

OUR CUSTOMER BUSINESSES

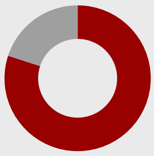
Core Revenues



78% Retail and SME

22% Corporates, Real Estate, Public Sector

Customer Assets



~80% secured

~20% unsecured

BUSINESS PRINCIPLES

1. Focus on developed and stable markets
2. Focus on risk-adjusted returns, conservative underwriting, and proactive risk management
3. Consistent technology investments
4. Data-driven in how we run the business
5. Continuous focus on simplifying our business

BAWAG CULTURE IS OUR FOUNDATION FOCUSED ON

- Leadership and embracing change
- Accountability, meritocracy and inclusion
- Simple and flat organization
- Management, both fiduciaries & shareholders

BAWAG Group

ACHIEVEMENTS SINCE IPO

- BAWAG Group TSR +30% vs. EuroStoxx Banks Index -8%
- Distributed more than €2.0 billion of capital since 2017
- Completed 7 acquisitions
- Expanded footprint into new markets
- Optimized branch network with separation from Austrian Post
- Invested in platforms and partnerships

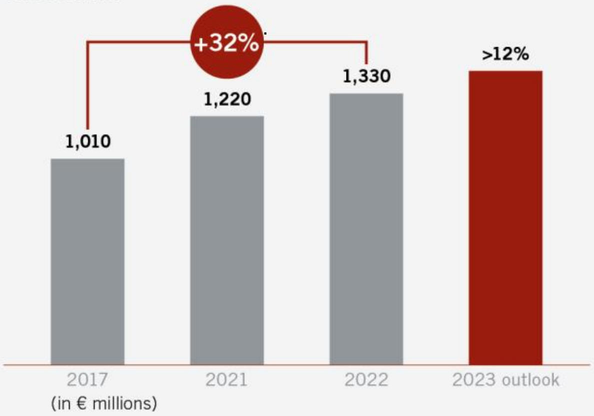
STRATEGY FOCUSED ON EXECUTION AND CONTINUOUS IMPROVEMENT

		Achievements in 2022	Achievements Since IPO
1 GROWTH IN CORE MARKETS FOCUSED ON SERVING OUR CUSTOMERS	**Core markets: Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States** • Criteria for core markets: Fiscal position (single A or better sovereign rating), legal infrastructure, and political environment • 24/7 banking access through multi-channel and multi-brand commercial banking platform • Customer value proposition: "Providing simple, transparent and affordable financial products and services our customers need"	Core revenues **+9%** **1** deal signed	Core revenues **+32%** **11** deals completed
2 EFFICIENCY THROUGH OPERATIONAL EXCELLENCE	**Our DNA is to focus on the things we can control through "self help" management** • Greater need to simplify business structure, products, processes, and technology • Technology is an enabler and differentiator	CIR down **3.6pts** **75%** of products digitized	CIR down **11pts** **75%** of products digitized
3 SAFE AND SECURE RISK PROFILE	**We believe in maintaining a fortress balance sheet through strong capital position, stable customer funding and low risk profile** • Conservative and disciplined underwriting in markets we understand with focus on secured lending • Proactively manage non-financial risks … no capital markets activities, no trading activities, no exposure to high risk AML markets	**58bps** reduction in NPL ratio **250bps** gross capital generation	**80bps** reduction in NPL ratio **220bps** average yearly gross capital generation

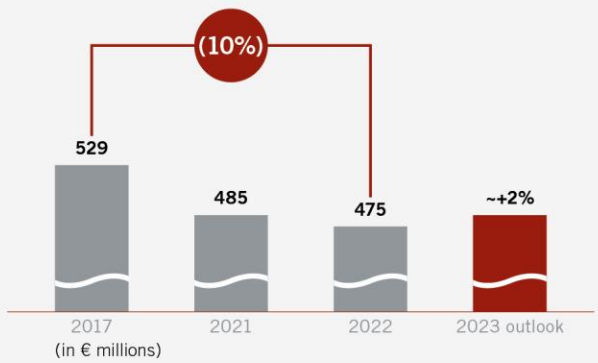
TAKING STOCK SINCE OUR IPO …

CONSISTENT EXECUTION AND DELIVERY

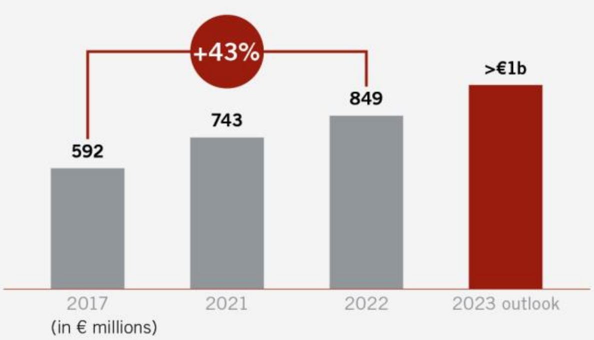
GROWING CORE REVENUES …
Core revenues



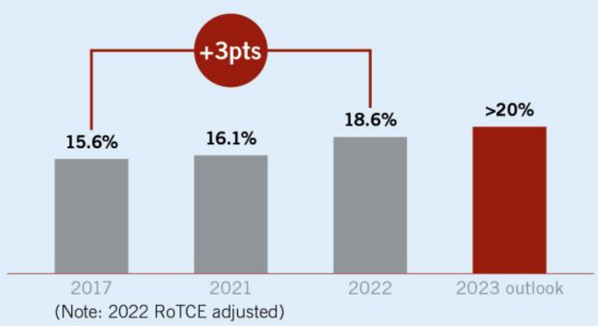
… WHILE IMPROVING COST BASE
Operating expenses



HIGHLY PROFITABLE FRANCHISE
Pre-provision profit



CONSISTENTLY HIGHER RETURNS
RoTCE



… WITH IMPROVING EFFICIENCY
Cost-income ratio

… AND STRONG ASSET QUALITY
NPL ratio

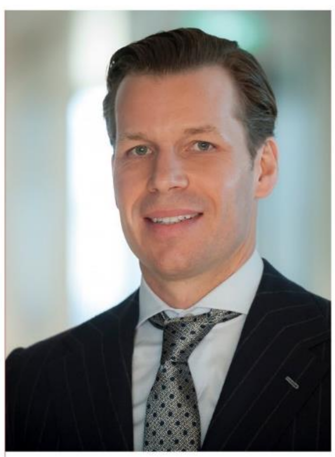
MANAGEMENT BOARD OF BAWAG GROUP AG

Anas Abuzaakouk
Chairman of the Management Board
Chief Executive Officer

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

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

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



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

Guido Jestädt
Member of the Management Board
Chief Administrative Officer

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LETTER FROM THE CEO

Dear Fellow Shareholders,

This past year has confirmed one key tenet we have always embraced, *the only constant is change.* Despite headwinds building up, volatile capital markets and a slowdown in the second half of the year, 2022 was another record year for the Group in which we exceeded all our targets. On an adjusted basis (excluding the City of Linz legal case, which I will address separately), we delivered net profit of € 509 million, EPS of € 5.81, a return on tangible common equity (RoTCE) of 18.6% and a cost-income ratio (CIR) of 35.9%. On a non-adjusted basis, this equaled net profit of € 318 million, EPS of € 3.64, an RoTCE of 11.6%, and a CIR of 35.9%.

We also distributed € 592 million of capital in the form of € 267 million dividends (€ 3.00 per share) and completed a € 325 million share buyback during 2022, reducing our number of shares by 7%, which now stand at 82.5 million shares. We ended the year with a CET1 ratio of 13.5% (post dividend accrual of € 305 million) and excess capital of € 261 million versus our CET1 target of 12.25% with a management overlay provision of € 100 million to address any macro uncertainty. We are purposely maintaining dry powder for organic opportunities and potential M&A in the coming quarters. If specific opportunities do not materialize, any potential buyback in 2023 will be under 100 basis points of CET1% as we remain prudent and conservative.

I want to thank our customers for placing their trust in us, our shareholders for their continued support and our team members for their commitment and execution.

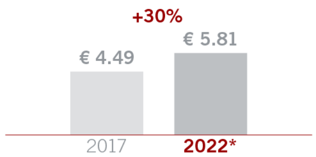
Our first 5 years as a public company

Despite the changing sentiment in equity markets, we have stayed the course, focusing on the fundamentals of running a good business, and not chasing the latest fad or short-termism. We strengthened our franchise by consistently growing earnings, improving our operating performance and being good stewards of capital. We completed 7 acquisitions and entered 2 new markets, which were all self-funded, as we generated an average of 220 basis points of CET1 capital per year. In 2017, we delivered pre-tax profit of € 500 million, EPS of € 4.49, RoTCE of 15.6% and CIR of 47.2%. In 2022, we delivered an adjusted pre-tax profit of € 681 million, EPS of € 5.81, RoTCE of 18.6% and CIR of 35.9%. This represented a 30% EPS increase, 3.0 point improvement in RoTCE and 11.3 point reduction in CIR. Core revenues grew by 32% while operating expenses were down 10% over the same period. We improved on every operational and financial metric by focusing on the things that we can control, being patient and prudent, and pursuing sustainable and profitable growth.

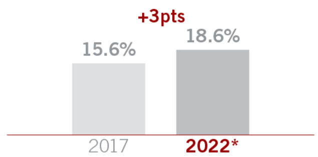
We take pride in being good stewards of capital and disciplined in our capital allocation. We distributed € 1.725 billion of capital in the form of dividends and share buybacks. We paid € 1.0 billion in dividends, equal to € 10.96 in cumulative dividends per share. We completed share buybacks worth € 725 million, reducing our number of shares by 17.5% to 82.5 million shares. We will be proposing to the AGM a dividend payment of € 3.70 per share for 2022, equal to € 305 million, to be paid on April 6, 2023, subject to shareholder approval. Therefore, this will take total distributions since our IPO in October 2017 to over € 2 billion. During this same period, our total shareholder return was +30%, outperforming the benchmark European bank indices, the SX7P and SX7E, by 38 and 43 points, respectively.

Our senior leadership team today is the same group that transformed the business over the past decade and took the company public. Our team members love what they do, enjoy working together and are significant shareholders with an approximately 3.6% ownership stake in the company. We follow the mantra of Warren Buffet when describing Berkshire director's owner-orientation, "*We eat our own cooking.*"

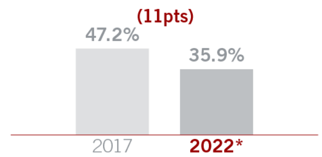
Earnings per share (EPS)



Return on tangible common equity (RoTCE)

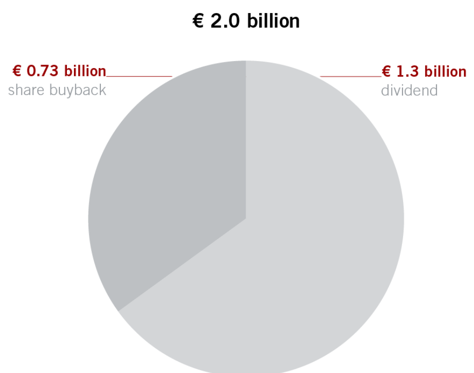


Cost-income ratio (CIR)



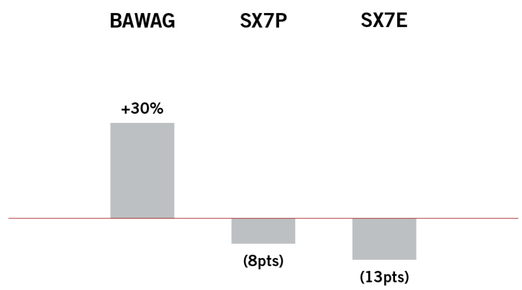
*) adjusted for City of Linz legal case

Capital returned to shareholders / earmarked since IPO in 2017**



**) Including 2022
declared dividend of € 3.70 per share,or 305 million € total dividend

Total shareholder return since IPO



Targeting an RoTCE >20% and CIR <34%

Despite our strong record of performance over the past decade with an average RoTCE of ~15%, we have underearned over this period defined by negative rates. We have an opportunity to deliver more normalized returns in the years ahead. However, we should never confuse the tailwind from the normalization of interest rates with the daily execution of our strategy. Our emphasis on managing costs and maintaining a conservative and disciplined risk appetite is more important than ever. The opportunity lies in maintaining our cost discipline and focusing on risk-adjusted returns while capturing the benefits of a normalized interest rate environment. The resilience of our franchise lies in our ability to deliver results across all cycles as we are built for all seasons. Going forward, we will be able to demonstrate continued positive operating leverage as we see greater revenue growth opportunities while controlling our costs. Our approach is consistent: focus on the things that we can control, be a disciplined lender, maintain a conservative risk appetite and only pursue profitable growth.

Our target for 2023 is a pre-tax profit > € 825 million, EPS > € 7.50, DPS > € 4.10 and a sustainable RoTCE > 20% and CIR < 34%, improving absolute earnings and returns for the franchise. Therefore, our plan is to meet all our 2025 financial targets in 2023. We expect to generate gross capital of over 275 basis points per year. We have committed to a dividend payout ratio of 55% of net profit and we will look to grow the franchise organically and through M&A given our dry powder. We have a fortress balance sheet with capital and liquidity to address any pronounced downturn. This will allow us to support our customers, provide financing to the real economy and capitalize on dislocations – be it in the form of more disciplined commercial lending, purchase of asset platforms and portfolios, or traditional bank M&A whereby we can underwrite the credit risk.

Our goal is to always be good stewards of capital. Our preference is to use our excess capital to continue to grow our franchise, however, we will remain disciplined and only pursue profitable growth, do business that makes sense and meet our minimum return requirements of over 20%. If we are unable to deploy our capital, we will return excess capital in the form of share buybacks and special dividends.

City of Linz legal case

Despite our strong operating performance in 2022, we lost the City of Linz legal case this past year. This past August, the Austrian Supreme Court ruled that the swap contract between BAWAG and the City of Linz, which was entered into 15 years ago and predates any of our Management Board members, was deemed invalid. As a result of the ruling, we took a pre-tax write-off of € 254 million, equal to a € 190 million after-tax impact related to the City of Linz receivable that we had been carrying on the balance sheet since 2011. As the write-off was fully absorbed in regulatory capital in prior years, this had no impact on our capital distribution plans in 2022.

I was personally disappointed in the ruling given the merits of the case; however, this is now behind us, and we look to the future. Because the write-off has no impact on our operating performance, the future earnings generation of the franchise, nor a reflection on how we manage risk, the financial figures in our MD&A will be adjusted to exclude the City of Linz write-off. I'm generally skeptical when companies report adjusted financials and operating metrics, however, we believe this situation warrants such an adjustment as it provides a more meaningful presentation of our operating performance as well as capital distributions.

The only constant is change … Focus on the things you can control

The year 2022 was the year of the unexpected. Our Investor Day in September 2021 feels like a century ago. This seems even crazier given the fact that 2020 and 2021 were dominated by the COVID pandemic.

We started 2022 ready to embrace a post-COVID world and were expecting a return to normalcy. However, what we witnessed was anything but normal. Inflation in the EU hit a four-decade high of 10%, 3-month Euribor widened by 270 basis points from -57 basis points to 213 basis points, Russia invaded Ukraine triggering an energy crisis across Europe, the Euro was at-or-below parity with the US dollar for significant parts of the year, the repricing of risk with widening of investment grade corporate and financial credit spreads, and the ECB exiting negative interest rates after eight years and set on a course for quantitative tightening going into 2023. The lesson is we must be ready to adapt to whatever comes our way.

Having an ability to adapt, whatever comes your way, is important for any company and a hallmark of BAWAG Group. Plans are important, having the ability to pivot and execute is far more important. This flexibility has been cultivated over the past decade. Our management team is experienced, tested and prepared for whatever may come our way. Across our senior leadership team, we repeatedly stress flexible thinking, patience, conservatism and a bias towards execution focusing on the things that we can control.

At BAWAG, focusing on the things we can control means focusing on credit and operations with the right culture. Our focus on credit means defining a conservative risk appetite, products, underwriting standards and risk-adjusted returns consistently across our markets. Our operational focus is based on a principle of simplification, pragmatism and efficiency in how we operate. We believe that the plumbing of the Bank – which captures your technology stack, applications, workflows and governance – is as important as any area of the Bank but at times gets neglected as this is seen as less glamorous. However, nothing works without having developed the right culture. Our culture reflects how we run the company and is the ultimate driver of our success. This is not defined in a mission statement or employee handbook but reflected in how our team members work together. It is how we set priorities and the values we espouse. It is captured in our meritocratic principles – valuing work ethic, performance and character. We believe in a simple and flat organization respecting all team members and encouraging open dialogue, streamlined decision-making and a continuous improvement mindset. And our leadership team has an owner-operator mentality, aligned with all stakeholders, and deeply committed to the long-term success of the company.

Staying patient and prudent

As we head into 2023, we are entering a more normalized interest rate environment based on historic rates and a return to more market driven dynamics. This will result in greater differentiation between well-run companies versus those that have benefited from years of central bank intervention without having transformed themselves. This past year highlighted the merits of solid and consistent banking regulation, which can serve as a moat and differentiator for the industry. Long gone are the days of companies competing for who can burn the most cash in an endless pursuit of “loss-making growth” and exaggerated valuations. The reality of the banking industry is that it is highly regulated, with a great deal of oversight, requiring significant amounts of capital and liquidity to build a profitable and well capitalized commercial bank. This is complex and requires an understanding of credit, operations, risk management, compliance and technology all within a robust regulatory framework to address multiple regulators and regulations across various jurisdictions and agencies. We also need to ensure we are staying close to our customers, providing them with sound financial advice, protecting them from risks they may not fully appreciate (such as interest rate risks) and helping them navigate these uncertain times.

With this backdrop, we see more opportunities than risks to our business driven by rising interest rates, repricing of credit risk, market dislocations and enhanced regulation. We will be able to contain significant cost inflation because of various operational and strategic measures that were executed over the past two years. We are very fortunate to have ample dry powder, in the form of both capital and liquidity, to support our customers versus being saddled with legacy issues, an inefficient business and a balance sheet of poorly underwritten loans.

However, we are also cognizant that the overall macro environment presents several headwinds in 2023 and beyond. Over the past decade, we have been conservative in our underwriting as this is a key pillar of how we run the Bank, and one of the few things we can control. Despite a record-low NPL ratio of 0.9% and low-risk balance sheet with primarily secured exposures in mature developed markets, we have set aside € 100 million in management overlay provisions, equal to one year of normalized risk costs. This will serve as a buffer against any potential credit deterioration in 2023. We have always taken a conservative approach as a commercial lender focused on risk-adjusted returns that adjusts pricing and underwriting to real-time developments in the market.

Executing on our strategy

Our strategy has been consistent since 2012. We aim to grow across our core markets focused on serving the needs of our customers, driving efficiency through operational excellence and always maintaining a safe and secure risk profile. The foundation of our strategy is consistent execution, a continuous improvement mindset and a “self-help” DNA. Our value proposition is about *“Providing simple, transparent and affordable financial products and services our customers need.”*

We executed on several initiatives that contributed to our strong performance in 2022 and will benefit us going into 2023. A few examples this past year were the purchase of a high-quality German consumer loan portfolio, completing the capital accretive wind-down of Depfa bank, the integration of Hello bank! Austria (rebranded to easybank brands), implementing a hybrid home-office model, combining our technology and operations teams, the continuous investment in our technology infrastructure and optimizing our physical footprint to reflect the realities of tomorrow. We’ve embedded the core principles of ESG (Environment, Social, Governance) into our strategic roadmap across the Group to drive responsible and profitable growth that can have a tangible and positive impact on our various stakeholders. Lastly, we signed an agreement to acquire

Idaho First Bank in February 2022 (which has received shareholder approval and is pending regulatory approval), which will provide us with access to the broad US retail market of customer loans and deposits.

In terms of customer business performance, we delivered a record year benefiting from investments and changes we've made over the past few years. The Retail & SME business had a record year delivering net profit of € 442 million, an RoTCE of 34.3% and a CIR of 33.2%. Our Corporates, Real Estate & Public Sector business delivered net profit of € 146 million, an RoTCE of 17.8% and a CIR of 22.8%. Our Treasury team issued € 4 billion of funding despite at times challenging market conditions, anticipating future funding needs in the years ahead and providing us with ample liquidity to address potential market dislocations. We also continued to slowly build up our securities portfolio, taking advantage of good investment opportunities with the widening of credit spreads across certain investment grade asset classes.

Across all businesses, we worked closely with our customers explaining the uncertainties ahead and taking measures to mitigate potential risks building up. We rolled out several community banking initiatives to help our customers and compete on high quality financial advice, ease of use, customer responsiveness and transparency. We continue to build a scalable commercial banking platform that can address multiple markets through a multi-channel and multi-brand franchise.

Although we witnessed a slowdown during the second half of the year, we will hopefully be rewarded for our patience and prudence as others adjust to the new interest rate landscape and macro headwinds. During 2022, we made real-time adjustments to our underwriting as well as pricing to address significant movement in interest rates and maintain appropriate margins across our product offerings. Although credit risk pricing and underwriting standards have varied across asset classes, we believe this will gradually move in the same direction during 2023, but in a more pronounced way. The past three years we have been in an iterative process making real-time adjustments to our underwriting standards, performing weekly credit portfolio reviews, and implementing real-time risk-adjusted pricing given the changing macroeconomic outlook and interest rate environment. However, our focus will always be on disciplined and profitable growth.

Maintaining a safe and secure risk profile is about maintaining a conservative risk appetite and sound risk management. Our guiding lending principle as a bank has always been to focus on risk-adjusted returns, and not blindly chasing volume growth. This discipline has served us well this past year and will continue to serve us well long into the future. We continued to fortify our balance sheet this past year, as we could afford to do so in terms of both reserves and capital. This was about preparing for the worst and having the ability to withstand a severe economic downturn, which we do not anticipate, but will nevertheless be prepared for.

Supporting our team members and local communities

Our greatest asset is our team members. In 2022, we launched 2 employee equity programs to reward each team member for their dedication and commitment as well as to give everyone a chance to participate in the success of the company through direct share ownership. The first program was a stock grant of 25 BAWAG Group shares, equivalent to approximately € 1,000. The second equity program was a stock matching program, providing one additional BAWAG Group matching share for every three shares acquired, up to a maximum value of € 2,000 of purchased shares with over 25% employee participation. The Management Board, Supervisory Board and Workers Council are keen to ensure each employee participates directly in the success of the Group as well as has an opportunity to be an owner of the company. We also instituted targeted programs to support team members given the challenging economic environment. In total, we invested € 5 million to provide our team members equity programs, special bonuses, and various support allowances.

We made several promotions this past year to our senior leadership team, which now stands at 88 between our Management Board, Extended Management Board, and Senior Leaders. The group consists of 11 nationalities, with 28% female representation and average working experience at BAWAG of 14 years. Our goal is to develop our leaders in-house that will lead the bank long into the future. This is made possible given the various training programs, leadership development, mentoring, and challenging roles on hand.

We are also aware of our social responsibility to our local communities and BAWAG's traditional commitment to helping those most in need across society. In 2022, we donated over € 250,000 to various local organizations in the communities we serve, focusing our efforts on youth financial literacy and supporting displaced communities. We plan to focus our efforts in 2023 working closely with Samariterbund, an organization offering a broad range of social services, as part of a weekly soup kitchen drive. The company has committed to providing significant financial support between the Management Board, employee contributions, and company matching program. Each employee will have an opportunity to contribute not only financially, but also working on the front lines. We will roll out this partnership in coordination with our branches in support of our local communities.

Our foundation is as strong as ever. I truly believe this is born from our unique culture. One that captures the best parts of our legacy as a trade union bank focused on serving local communities infused with a culture of accountability, meritocracy, empathy, and inclusion. Today, our team members span 53 different nationalities operating across 7 markets, with Austria as our foundation. We pride ourselves on promoting the best-and-brightest, being entrepreneurial, challenging the status quo and looking to improve ourselves and our business. We do not shy away from change, knowing that this is the only constant.

I feel blessed to be part of a company with dedicated, hardworking, and committed team members that care for one another and work as one team. I, and my colleagues on the senior leadership team, are incredibly thankful for the support from all of our stakeholders. We have an amazing team and resilient business that will deliver results across all cycles allowing us to consistently support our customers, local communities, team members and shareholders.

Thank you.

Best,
Anas

Anas Abuzaakouk, CEO of BAWAG Group AG

STRATEGY

Our strategy has been unchanged since the beginning of our transformation in 2012. We remain consistent in our execution, focus on the things that we can control, and are setup to deliver results across all economic cycles. Our three strategic pillars are:

GROWTH IN CORE MARKETS FOCUSED ON SERVING OUR CUSTOMERS

Growing in our core markets

BAWAG Group's strategy focuses on growth in developed and mature markets. We pursue organic growth and M&A that is strategic, value-add and earnings-accretive. Our growth strategy is defined by the following:

- Our core markets are Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States
- Focus on organic growth, M&A, and minority investments
- Invest in platforms and partnerships to drive growth across the Group
- Pursue earnings-accretive M&A meeting our Group RoTCE target of at least 20%
- Continue to build-up middle-back-office sales support and product/channel standardization to drive profitable growth

We focus on regions and countries with solid fiscal positions, represented by a sovereign rating of at least Single A, reliable legal systems, and a stable geopolitical environment. This will be even more important with evolving ESG and regulatory standards to ensure we meet the needs of our various stakeholders. The past few years, which have been dominated by the pandemic and rising inflation, have demonstrated the fiscal strength and capabilities of the countries we operate in. Governments have put in place extensive stimulus packages and support measures to support their citizens and economies.

The DACH/NL region comprises 73% of our customer business and is the foundation of the Group. The region benefits from a common culture and language family, with a stable legal system and credit environment. The region also benefits from low levels of consumer indebtedness, home ownership and digital penetration; all of which presents opportunities for future growth. The macro fundamentals of the DACH/NL region are the following:

- Growing population with over 120 million people
- Annual GDP of € 6.3 trillion and GDP per capita of more than € 55,000 in a normalized environment
- Average unemployment rate of less than 5%

Slower loan growth in the light of a changed environment

With our long-history and headquarters in Austria, the domestic business provides us with a stable and scaleable platform to build a multi-channel and multi-product origination engine across our core markets. Within Austria, we continue to focus on disciplined growth in core products such as mortgages, consumer loans, and auto leasing. BAWAG Group's expansion outside of Austria has been focused on identifying mature and developed markets with sound macroeconomic fundamentals and profitable growth opportunities. This has been achieved through a mixture of organic growth initiatives and acquisitions. While we remain a niche player in the German, Dutch and Swiss markets, the foundations that we have built provides us with a significant opportunity to accelerate our growth without sacrificing profitability.

We also consistently monitor opportunities across our core markets of Western Europe (e.g. UK & Ireland) and the United States (US). We opened a representative office in the United States in 2022 to better serve our US clients and pursue future growth. We've been lending to US corporate and real estate clients for over a decade. We also signed on the purchase of Peak Bancorp, which is the holding company of Idaho First Bank (IFB) in early February 2022 (which has received shareholder approval and is pending regulatory approval). IFB is a community bank that will provide us with a platform to drive organic growth across the United States – growing in a core market that is deep, broad, and transparent. Our focus will primarily be on Retail & SME – raising deposits and providing mortgages, consumer, and small business loans.

Our Retail & SME focus continues to be about providing our customers quality products and services they have come to expect, preserving the differentiated value propositions of our separate brands, while ensuring we maintain a consistent approach to risk-adjusted pricing. The future growth drivers will be on financial advisory, enhanced data analytics, investing in partnerships and platforms, enhancing digital engagement, leveraging technology across all our processes, and continuing to pursue earnings-accretive M&A.

The Corporates, Real Estate & Public Sector business is focused on developed and mature markets providing direct lending opportunities and payments. The corporates space has been challenged for a number of years, where we believe credit risk has not been appropriately priced, however, we remain ready to actively engage once we believe risk is properly priced. We continue to expand our public sector business in Austria, where we are the payments provider to the Austrian government. In real estate lending, we continue to see quality lending opportunities in Western Europe and the United States. Our focus will always be on risk-adjusted returns, disciplined underwriting, driving profitable growth and being patient without ever chasing blind volume growth.

One acquisition signed and one portfolio acquired in 2022

Since 2015, BAWAG has executed on 11 smaller bolt-on acquisitions in Austria as well as new markets (Germany, Switzerland, Ireland), adding new channels, new products, and new brands across the Group.

In February 2022, BAWAG Group signed an agreement to acquire Peak Bancorp, the holding company of Idaho First Bank, a community bank with approximately 10,000 customers and $ 0.5 billion balance sheet. The acquisition enables BAWAG Group to expand its footprint in the United States and better position it for future growth in one of the bank's core markets. The acquisition also provides BAWAG Group with a banking platform to pursue further growth opportunities across the United States. The transaction is subject to regulatory approvals.

On 1 March 2022, Sberbank Europe AG (now in liquidation) was prohibited from continuing business operations. BAWAG Group purchased a German consumer loan portfolio and a bond portfolio. The transaction consumed approximately 30 basis points of CET1 capital with the purchase price directly paid to the Austrian deposit guarantee scheme.

Climate change and ESG

We are committed to addressing the immediate need to combat climate change across our business. However, the reality is today's actions will take time to have real impact on our climate. In 2021 we have set a target to double our 2020 annual "green" origination to greater than € 1.6 billion by 2025. Our ESG strategy is aligned with our overall business strategy. As a Retail-focused bank we will support our customers as they look to reduce their carbon footprint. We are also committed to keeping our exposure to high-emitting GHG sectors low across our corporates portfolio. In 2022, BAWAG Group participated in the ECB climate stress test. We successfully completed the exercise with an above average overall rating (ca. top 35% of banks) considering all the elements assessed and indicating a rather low impact of climate risks related to our business model.

Focusing on the customers and their needs

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

The following cornerstones are key to building and maintaining successful customer relationships:

- providing customers with a range of products and services when and where they want,
- providing easy-to-use and easy-to-understand financial products at a fair price,
- leveraging new and existing technologies to simplify processes and reducing complexity,
- focusing on high-touch and high-quality advisory across a modernized branch network, as well as
- establishing new retail partnerships and leveraging lending platforms in acquiring new customers

With the shift towards more digital engagement, we have adjusted our business towards advisory services in our branch network, while shifting more straightforward administrative tasks to our digital/online channels. Fundamental to that development is the continuous enhancement of our digital product offering. As of today, we digitized 75% of Retail & SME products with fully automated on-boarding and target a 100% fully automated on-boarding offering by 2025. The COVID-19-pandemic has accelerated the change in customer behavior. Customers are increasingly expecting that traditional branch services be available on e-banking and mobile platforms. Building on our established regulatory frameworks, we are able to offer competitive and convenient services without ever sacrificing on quality, compliance, or security.

Digitization also serves to streamline BAWAG Group's relationships with distribution partners creating faster response time to end customers. With our investments in digital channels, partnerships and platforms, we have diversified our originations away from branches. As a result, 76% of originations are generated outside of the traditional branch channel.

Outlook 2023

Going into 2023, we will continue executing on our growth strategy in the DACH/NL region, Western Europe and the United States. Our M&A activities focus primarily on our core Retail & SME franchise; however, we monitor the market for opportunities across the banking sector. These opportunities range from profitable platforms with a solid business model and strong origination channels to financial institutions that require either an extensive operational turnaround or an orderly wind-down.

DRIVING EFFICIENCY AND OPERATIONAL EXCELLENCE

The banking industry across Europe continues to undergo a significant transformation and still faces multiple headwinds driven by years of subdued economic growth, broken cost structures, over-leveraged balance sheets, pricing pressure, high regulatory costs, and sub-par technology. Additionally, more and more companies from outside the traditional financial services industry (FinTechs and e-commerce platforms) are entering the market, negatively impacting margins as they focus on loss-making growth in an effort to gain market share, and attacking the traditional revenue streams and financial institutions. The focus on efficiency, profitability and driving operational excellence is part of our team’s DNA, as we believe this is one of the few things a management team truly controls and will continue to differentiate BAWAG Group from both the established institutions as well as new players entering the market.

We are convinced that even though banks will benefit from rising interest rates, they have to transform their business models and cost structure to be much more simple and efficient. With the continued advancements in technology, banking is becoming more commoditized. To this end, the key is, and will continue to be, focusing on simplification, standardization, automation and applying technology judiciously as we continue to transform our business and focus on operational excellence. With the inflationary headwinds set to impact operating expenses; we believe the ability to maintain cost discipline through operational excellence will be a true differentiator across the banking sector.

Going into 2023, our focus continues to be on driving efficiency through process re-engineering, simplification, standardization and ultimately automation. The benefits of creating a scalable and efficient banking platform are more evident today than ever. Having executed on multiple initiatives during the pandemic, we were able to deal with record cost inflation in 2022 and achieved a net cost out of 2%. In 2023, we expect operating expenses to increase by approximately 2%. On the back of record EU inflation of 9% in 2022 impacting both wage and non-wage expenses, the underlying cost base would correspond to a continued cost-out. We will continue to drive various initiatives in order to combat inflationary headwinds, that left unchecked, create significant cost challenges:

- Focus on the things we control through “self-help” management
- Simplify, standardize and automate product and service offerings across all channels
- Create simple end-to-end processing across the Group
- Continuously optimize our processes, footprint and technology infrastructure
- Embrace various forms of technological change and invest judiciously in technology
- Foster a meritocratic culture that promotes employees based on merit and character

Since 2012 we have invested approximately € 600 million in technology. Continuous investment in technology over the past decade has allowed us to modernize and simplify our technology stack, avoid large scale white-elephant digitization projects, and most importantly systematically work to scale our banking platform. We have expanded partnerships and investments with technology leaders as we modernize our technology infrastructure, simplify our architecture, and focus on straight-line processing. These investments will continue and today represent a greater percentage of our overall spend across the Group, moving from 15% in 2012 to ~ 25% of our total Group spend today.

The pandemic in 2020 has been a catalyst for accelerating productivity initiatives across the Group. We reduced our physical footprint due to the integration of a hybrid home-office working model and a regular assessment of employee preferences, adapted to changing customer behavior through enhanced digital engagement, and further streamlined and simplified operations. These initiatives will allow us to better serve our customers and scale our business as we pursue growth opportunities long into the future.

We aim to further improve the efficiency and integration speed through a platform approach:

- **Data asset management**: Centralized data warehouse consolidating finance, risk, and regulatory reporting with customer analytics
- **Technology operations**: Driving towards a greater simplification across front, middle, and back-office functions through process re-engineering underpinned by enabling technologies
- **Infrastructure**: Centralized cloud infrastructure, container platform and workplace environment across the Group
- **Products**: Open architecture enabled through standardized interfaces

Sustainable value creation is also key for us in order to be able to be a reliable partner to all our stakeholders on a long-term basis. These measures allowed us to weather the cost and profitability challenges faced by the financial services industry over the past decade. Through consistent and continuous investments as well as optimization of our infrastructure we were able to accelerate the integration of acquired businesses, reduce operational complexity, and reduce unneccesary overhead costs. This positions us well for future integrations and collaboration with partners across the entire value chain of financial services.

Lastly, a core centerpiece to our company is the BAWAG culture based on the following values:

- **Leadership & Embracing Change**: We value leaders who are dynamic, lead with uncompromising integrity, have a strong work ethic, and do not shy away from taking hard decisions. Our Senior Leadership Team (SLT) of 88 team members, which has led our transformation over the past decade, have an average of 14-years of working experience at BAWAG.

- **Simple and flat organization**: We do our best to maintain a simple group structure and flat organization. We encourage all team members to focus on the work at hand, cut-out the noise, and always challenge the status quo for the betterment of the team. We believe hierarchy, bureaucracy, and a siloed organization lead to disjointed analysis, wide scale inefficiencies, poor decision-making, and ultimately a bloated cost structure.

- **Accountability, Meritocracy & Inclusion**: We believe our diversity, inclusivity and meritocratic culture are a real source of strength. The team members come from 53 different nationalities, and we are fully committed to equity and diversity. This will be a byproduct of merit, integrity, and work ethic. Our greatest asset is our human capital, so we are focused on developing and mentoring our team members across the ranks. Today, our reconstituted SLT of 88 team members is comprised of 11 nationalities with a female representation of 28%. We're proud of the recent promotions this past year, but recognize we have more to do.

- **Management, both Fiduciaries & Shareholders**: The Management Team are both fiduciaries as well as shareholders of the Bank. The incentives are directly tied to real financial and ESG targets, which we believe create long-term shareholder and stakeholder value. The Senior Leadership Team currently owns ~3.6% of the Bank. We believe stock ownership is the best way to create alignment with shareholders and long-term strategic value creation.

Instilling this culture within the organization has been pivotal in driving our "self help" DNA, building a scalable commercial banking platform that will compete long into the future. Our culture has been the foundation of our success, motivating and retainining our team members, as well as attracting top talent over the years.

MAINTAINING A SAFE AND SECURE RISK PROFILE

A bank is fundamentally in the business of managing risk. For us, having a safe and secure risk profile is about maintaining a fortress balance sheet through a strong capital position, stable customer funding and a low risk profile through proactive risk management. These are fundamental cornerstones to the execution of our business strategy. Management is committed to running BAWAG Group in a safe and secure way.

Our low risk profile is defined by the following principles:

- **Maintaining strong capital position, stable customer funding, conservative underwriting and low risk appetite**
  Our business model and strategy already limit certain risk areas. A key role of our activities is transforming deposits and other types of funding into customer loans. Customer deposits remain a key pillar of our funding strategy supplemented by covered bonds (secured by mortage and public sector collateral) and unsecured funding. In terms of capital, BAWAG Group's target CET1 ratio is 12.25% (fully loaded), providing a conservative management buffer above our minimum regulatory capital requirements.

- **Focus on mature, developed and sustainable markets**
  Our focus is on Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States. These countries/regions share the same characteristics: strong macroeconomic fundamentals, stable legal systems, robust capital markets, and governments that have the fiscal capability to support their economies in times of distress. Banking in more volatile and less developed markets provides optically higher returns and higher growth, but we do not believe that the risk-adjusted returns over the medium-to-long term are as attractive as more developed and mature markets. We believe the market will price these risks into the cost of equity of each bank in addition to overall asset quality, earnings volatility, funding profile and sustainability of business model.

- **Applying disciplined underwriting in markets we understand with a focus on secured lending and risk-adjusted returns**
  Our lending is focused on disciplined underwriting focused on risk-adjusted returns across developed and mature markets. We routinely review our underwriting guidelines and adjust accordingly. Fundamental to our business strategy is the core concept of the quality of volume versus the quantity of volume. We assess all lending by risk-adjusted returns to ensure our return thresholds are met and our future earnings remain resilient. Approximately 80% of our customer assets represent secured and public sector lending.

- **Maintaining a fortress balance sheet**
  We focus on solid asset quality with a low NPL ratio of 0.9%, strong capital generation with gross capital generation of +250 basis points in 2022, and conservative capitalization levels targeting CET1 ratio of 12.25% as we maintain a fortress balance sheet. We continue to fortify our balance sheet to withstand all economic cycles.

- **Proactively manage and mitigate non-financial risk**
  Being safe and secure is not limited to balance sheet numbers or regulatory KPIs, it's also around managing non-financial risk (be it AML or ESG risks). We continuously enhance our governance structure as well as risk management frameworks to address these risks, with climate risk having gained more importance across all stakeholders over the years. As an example, our oil and gas industry exposures are less than 1% of total assets today. We will continue to integrate environmental factors further, as we enhance our data collection and underwriting to account for these emerging climate risks. As of December 2022, we had no relevant exposure to emerging markets or CEE countries and no operations in countries with elevated AML risk.

Overall, this conservative approach positioned us well over the past years when faced with the risks brought on by a global pandemic as well as an energy crisis brought on by geopolitical conflict. Our focus on developed markets provided us with indirect benefits via the high-level of labor market support as well as social safety net benefits our customers received in the form of various stimulus or support programs. Our disciplined underwriting and focus on risk-adjusted returns also minimized our exposure to volatile and cyclical industries that were hardest hit during the pandemic.

We will continue to maintain our conservative risk appetite, ensuring that we mitigate against both macro and micro risks. Our goal is to always maintain a fortress balance sheet and conservative underwriting, a cornerstone of how we run the Bank.

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKETS

Equity markets in Europe and the United States were impacted by geopolitical conflict, monetary policy actions to counter rising inflation, and a worsening macroeconomic outlook. Central banks significantly raised interest rates, with the US Federal Reserve Bank hiking interest rates seven times and the ECB four times during 2022. Overall, share price performance in 2022 was impacted by declining macroeconomic indicators and rising interest rates, albeit increasing interest rates served as a catalyst for the banking sector. The Euro Stoxx 600 decreased by 13.1%, the subindex Euro Stoxx Banks decreased by 4.6% and the S&P 500 decreased by 19.7% in 2022.

The financial performance of the corporate sector reflects the overall economic activity as well as the ability to pass on increasing input prices. Earnings per share of the Euro Stoxx 600 and the Euro Stoxx Banks were stable to increasing while earnings per share of the S&P 500 decreased. Valuation metrics decreased in Europe and in the United States compared to 2021 and remained stable for the Euro Stoxx Banks subsector.

SHARE PERFORMANCE

BAWAG Group AG shares are listed on the Vienna Stock Exchange. Following the rebound of capital markets during 2021, capital markets in 2022 were driven by the geopolitical conflict, the macroeconomic developments as well as the monetary policy actions to counter inflation.

BAWAG Group AG's shares closed the year 2022 with a share price of € 49.80, compared to € 54.20 as of year-end 2021. During the same period, the share price high was at € 57.30 and the low at € 37.90. BAWAG Group AG's shares total return, accounting for price performance and dividends, was (1.8%), while the total return of the Euro Stoxx Banks was 1.7% during the year 2022.

	2022	2021
Closing price 31 December	€ 49.80	€ 54.20
Share price high (closing price)	€ 57.30	€ 58.05
Share price low (closing price)	€ 37.90	€ 35.94
Dividend paid out (in 2021 for financial years 2019 and 2020)	€ 267 million	€ 460 million
Total return BAWAG Group	(1.8%)	57%
Total return Euro Stoxx Banks	1.7%	42%

DEBT ISSUANCES

While our AT1 and T2 capital needs have been adressed in 2020, BAWAG Group has been an active issuer in the covered bond space with five successful benchmark placements totalling € 4.0 billion in 2022. In addition, two senior placements were executed successfully in the CHF market for a total of approximately € 300 million. We introduced a green bond framework in 2021, which is an important element of our funding strategy. Following on from our inaugural green bond issuance in 2021, we issued two placements under this framework in 2022.

INVESTOR COMMUNICATION

Principles

Having an open dialogue, being transparent, and providing consistent information is our goal when communicating with investors and other stakeholders. Our aim is to align our interests with those of shareholders, as we are focused on long-term franchise value creation, which in our view is best aligned via stock ownership. The Management Team are both fiduciaries as well as shareholders of BAWAG Group and the incentives are directly tied to the financial and ESG targets. As of year-end 2022, the Senior Leadership Team owned approximately 3.6% of the Bank (31 December 2021: 3.1%).

Investor relations in 2022

In 2022, the priorities of the investor relations team were focused on increased communication due to the ongoing market volatility in light of the macroeconomic as well as geopolitical environment.

- **Ongoing dialogue** with existing and prospective equity investors, analysts, bondholders and rating agencies.
  On the day of quarterly earnings release, we meet with investors for one-on-one as well as group meetings to discuss quarterly and annual developments. In addition, BAWAG Group management meets current and potential investors during roadshows, conferences and one-on-one meetings. In 2022, members of the Management Board, together with the Investor Relations team, met with investors from the United States, the United Kingdom, Germany, France, Austria, Denmark, Norway, Finland, Netherlands, Belgium, Italy, Spain, Sweden, Poland and across Asia. In addition, we attended 8 conferences dedicated to financial institutions or small-mid cap companies in 2022. This was a mix of both specialists in the financial sector as well as generalists. Besides roadshows and conferences we held one-on-one (virtual) meetings or calls with potential new investors as well as existing investors and ESG teams. The main discussion points were related to the share buyback, macroeconomic environment, interest rate sensitivities, asset quality and details on our business model.

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

- **ESG communication**
  ESG has become a more integral part of our investor communication over the last years. The topics with dedicated ESG teams of investors have continued to focus more and more on green lending, risk management, social initiatives, and corporate governance. While having continuously enhanced the disclosure on our ESG initiatives, we have also introduced 2025 ESG targets in 2021. In addition, our sustainability performance is assessed by ESG rating providers on a regular basis. After a significant improvement of our ratings in 2021, we maintained the levels during 2022. We use their assessment to identify further areas of improvement and disclosure gaps in order to also enhance transparency for investors.

- **Annual general meeting**
  The dividend of € 267 million (or € 3.00 per share) was distributed on 5 April 2022, following the annual general meeting on 28 March 2022. The next annual general meeting will take place on 31 March 2023. We will be proposing to the AGM a dividend payment of € 3.70 per share for 2022, equal to € 305 million, to be paid on April 6, 2023, subject to shareholder approval.

Shareholder base

Our shareholder base is well diversified with a broad geographic reach. The institutional investors are primarily from Europe and North America, with two institutions holding more than 5%. The Senior Leaderhip Team owns approximately 3.6% as of 31 December 2022. In addition, BAWAG has rolled out two employee participation programs on a groupwide basis in 2022. Employees received 25 BAWAG Group AG shares under the BAWAG Employee Participation Program 2022 in July. A stock matching program was also introduced in September 2022, under which employees received one additional BAWAG Group AG share free of charge for every three shares they acquired up to a defined maximum amount.

	2022	2021
Number of research houses covering the stock	12	10
"Buy" / "Overweight" recommendation	11	9
"Hold" recommendation	1	1
Average target price (31 December)	€ 71.3	€ 64.6

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

Ratings

BAWAG P.S.K., the main operating subsidiary of BAWAG Group AG, is rated by Moody's Investors Service.

	2022
Long-term Senior Unsecured / Issuer Rating	A2 (stable outlook)
Long-term Bank Deposits Rating	A2 (stable outlook)
Short-term Issuer / Bank Deposits Rating	P-1

Group Management Report

ECONOMIC AND REGULATORY DEVELOPMENTS

ECONOMIC DEVELOPMENTS

Macro trends

Following the strong economic momentum in 2021 after the recovery from the pandemic, 2022 was dominated by a more challenging macroeconomic environment marked by the geopolitical conflict, significant inflationary headwinds, volatility in the energy markets and shifting global supply chains. Consumer price inflation surged throughout Europe and the US, peaking at 10.6% in the Euro area (Oct-22), at 11.5% in Austria (Oct-22), at 11.6% in Germany (Oct-22), at 17.1% in the Netherlands (Sep-22) and at 9.1% in the United States (June-22) followed by a slight moderation until year end 2022. Although surging prices for raw materials and energy have been contributing significantly to this inflationary trend, wage-price-spirals are, among other developments, a clear sign of a pronounced and sustained inflationary pressure that calls for decisive action by central banks.

The US Federal Reserve Bank hiked interest rates seven times during 2022 to the range of 4.25% – 4.50% as of year end 2022. The ECB has been lagging the Federal Reserve's policy action with four hikes reaching levels of 2.50% as of year end 2022. At the same time, both central banks have implemented measures to reduce their balance sheet. The ECB, among other measures, ended the favorable interest treatment of the TLTRO program in Q4 2022.

Governments throughout the developed markets have implemented measures to (partially) counter the effects of inflation. Measures implemented in Austria, Germany and the Netherlands include lump sum payments and caps on costs of electricity and gas bills of households.

Market developments in Austria[1)]

Corporate loan demand was solid on the Austrian lending market despite rising interest rates with growth rates of approximately 12% compared to the previous year being slightly above inflation rates as of Q3 2022. Housing loans, on the other hand, experienced a less dynamic development in Austria with loan growth of approximately 6% compared to the previous year in Q3. The total loan volume in Q3 compared to Q2 was almost unchanged, hinting to a fading momentum in loan origination on the Austrian market for housing loans. Rising interest rates as well as deteriorating consumer sentiment are the most important drivers of this development.

Deposits of Austrian households increased by approximately 4% compared to the previous year in Q3, highlighting a dissaving in real terms on the back of significantly higher inflation rates.

Outlook

The outlook remains unclear given the various political and economic developments with potentially significant impacts. Monetary policy errors in both directions remains a risk, i.e. reacting too slow and, hence, causing excessive inflation or reacting too drastic and, in turn, depressing economic recovery. This risk, however, can be managed by a data-based and vigilant decision-making process that central banks continue to stress in public communication. The ECB, as well as the Federal Reserve, are expected to continue hiking rates in 2023 before most likely pausing for some time to assess the impact of previous hikes on economic activity and inflation. A balanced approach leading to a soft landing, i.e. a decrease in inflation without a pronounced recession, remains the intended goal of monetary policy.

Shortages of gas, electricity and fuel caused by the geopolitical conflict do not represent an immediate threat to economic performance and standard of living during the winter months, apart from the already materialized effects caused by surging prices. In addition to the prudent management of gas and fuel reserves, Europe will diversify its gas suppliers of al types and generally diversify its electricity production, including green energy as a medium and long term strategy.

1) Source: Austrian National Bank (OeNB)

The end to the zero-COVID policy in China is set to ease global supply chain disruptions and a restructuring of global energy supply bearing fruit represent a beneficial scenario with potential relief to inflationary pressure, and, in turn rising consumer sentiment and growth.

For 2023, the EU commission expects GDP to grow 0.5% in Austria, 0.2% in Germany, 0.9% in the Netherlands and +0.9% in the Euro area.

Macro data in our core markets 2022 (in %)	Austria	Germany	Netherlands	Euro area
GDP (% yoy)	4.8	1.8	4.4	3.5
Inflation (HICP)	8.6	8.7	11.6	8.4
Unemployment rate	5.0	2.9	3.5	6.6
Forecast 2023 (EU commission)				
GDP (% yoy)	0.5	0.2	0.9	0.9
Inflation (HICP)	6.6	6.3	4.5	5.6

Source: EU commission winter 2023 forecasts

REGULATORY DEVELOPMENTS

The European Central Bank (ECB) continued its direct oversight of the Eurozone's main credit institutions, including BAWAG Group, under the Single Supervisory Mechanism (SSM).

At the beginning of the year, the ECB discontinued various measures that had been issued due to the COVID-19-pandemic. These measures included, among others, the easing of liquidity requirements, while the possibility to undercut Pillar 2 requirements or the non-consideration of exposure to central banks in the leverage ratio expired at the end of the year. In addition, the ECB implemented other priority measures, including the improvement of credit risk management, adequate risk provisioning in connection with IFRS 9, the digital transformation of the banking sector or the consideration of climate and environmental risks. Following up on the climate and environmental risks, the ECB launched a stress test on climate risks for the first time this year. The stress test highlighted the extent to which banks are prepared to deal with financial and economic shocks resulting from climate risks. The ECB published the results as well as best practices in the second half of the year.

On February 11, 2022, the European Systemic Risk Board (ESRB) issued a recommendation for Austria to take borrower-related measures to reduce the buildup of systemic risk from residential real estate lending. The Austrian Financial Stability Board (FMSG) followed this recommendation at its 31st meeting and tightened the criteria for residential real estate lending to consumers, which the FMA adopted with the "Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung". The regulation entered into force on August 1. In addition, at its 33rd meeting, the FMSG initially recommended phasing out the limit on the new principle of additivity of the systemic risk and OSI capital buffers under the Capital Requirements Directive (CRD V). As of 2023, the systemic risk and OSII buffers at the consolidated level of BAWAG Group AG will be 1.25% of risk-weighted assets.

On 27 October 2021, the European Commission adopted a review of the CRR and CRD. This package finalizes the implementation of the international Basel III agreement (also known as Basel IV) in the EU, while taking into account the specific features of the EU's banking sector. Although the Basel Committee timetable calls for the reforms to be implemented on 1 January 2023 (already deferred by one year due to the COVID-19 pandemic), the EU announcement indicates an application date of 1 January 2025 with transitional rules applying over a further five-year period. As of the end of 2022, the negotiations are in the European trilogue process.

The main points of the banking package mainly consist of significant adjustments to the measurement methods for credit, market and operational risk. The key elements are:

- Introduction of an output floor, limiting the capital benefits from risk models
- Update of the standardized approach for credit risk
- Changes to the internal ratings-based (IRB) approach for credit risk
- A new operational risk framework
- Amendments to the market risk framework and the calculation of credit valuation adjustments (CVA)

BAWAG Group is also preparing for the upcoming ESG requirements and is monitoring the European requirements such as EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector which was supplemented by Delegated Regulation 2022/1288 as well as expanded Pillar 3 disclosure requirements. In order to meet the upcoming requirements, working groups were already established last year within BAWAG Group in addition to the already appointed ESG officers.

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	**2022 reported**	**2022 adjusted**	2021	Change adjusted	Change % adjusted
Net interest income	1,021.1	1,021.1	938.3	82.8	8.8
Net fee and commission income	309.3	309.3	282.1	27.2	9.6
Core revenues	**1,330.4**	**1,330.4**	**1,220.4**	**110.0**	**9.0**
Gains and losses on financial instruments and other operating income and expenses[1)]	(6.4)	(6.4)	8.1	(14.5)	-
Operating income	**1,324.0**	**1,324.0**	**1,228.5**	**95.5**	**7.8**
Operating expenses[1)]	**(474.8)**	**(474.8)**	**(485.3)**	**10.5**	**(2.2)**
Pre-provision profit	**849.2**	**849.2**	**743.2**	**106.0**	**14.3**
Regulatory charges	(48.8)	(48.8)	(51.6)	2.8	(5.4)
Operating profit	**800.4**	**800.4**	**691.6**	**108.8**	**15.7**
Total risk costs	(376.3)	(122.0)	(95.0)	(27.0)	28.4
Share of the profit or loss of associates accounted for using the equity method	2.7	2.7	3.8	(1.1)	(28.9)
Profit before tax	**426.8**	**681.0**	**600.4**	**80.6**	**13.4**
Income taxes	(108.2)	(171.9)	(120.4)	(51.5)	42.8
Profit after tax	**318.6**	**509.1**	**480.0**	**29.1**	**6.1**
Non-controlling interests	(0.3)	(0.3)	(0.1)	(0.2)	>100
Net profit	**318.3**	**508.8**	**479.9**	**28.9**	**6.0**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 44.6 million for 2022. The item Operating expenses includes regulatory charges in the amount of € 4.2 million for 2022 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report.

In 2022, the Austrian Supreme Court ruled in favor of the City of Linz regarding the contractual validity of the swap contract entered into between BAWAG and the City of Linz 15 years ago. As a result of the ruling, BAWAG took the full write-off of € 254 million related to the City of Linz receivable on the balance sheet, or € 190 million after tax. To address the underlying business development, the below comments are excluding this write-off.

Profit after tax increased by € 29.1 million, or 6.1%, to € 509.1 million in 2022. The underlying operating performance of the business remained strong during 2022, generating pre-provision profit of € 849.2 million, up 14.3% year-over-year. Total risk costs (excluding the City of Linz write-off) increased as we remained cautious and prudent by building additional ECL reserves in light of the current macroeconomic uncertainty.

Net interest income increased by € 82.8 million, or 8.8%, to € 1,021.1 million in 2022 resulting from higher interest-bearing assets and a higher interest rate environment.

Net fee and commission income increased by € 27.2 million, or 9.6%, compared to 2021, driven by the acquisition of Hello bank! Austria in Q4 '21 (rebranded to easybank brand). While our advisory and brokerage business had a strong first quarter, it was impacted by the market volatility und uncertainty for the remainder of the year.

Gains and losses on financial instruments and other operating income and expenses decreased by € 14.5 million to € (6.4) million in 2022. Other operating income includes a negative impact for the hedge unwind cost for the TLTRO following the change of terms. This was partly offset by a settlement of € 12 million reached with the City of Linz.

Operating expenses decreased by 2.2% to € 474.8 million in 2022 as a result of multiple operational initiatives executed over the past two years, more than compensating for current significant inflationary pressures.

Regulatory charges were € 48.8 million in 2022, compared to € 51.6 million in 2021. This is a reflection of the overall stable deposit market development.

Total risk costs were € 122.0 million in 2022, an increase of € 27.0 million, or 28.4%, compared to the previous year. 2022 risk costs included additional ECL reserves of approximately € 39 million which were taken to address the uncertain economic outlook as a consequence of the geopolitical situation, high inflation and supply chain shortages during 2022. As of year-end, BAWAG Group had total ECL provisions of € 179 million, of which € 100.0 million were the result of a management overlay to ensure adequate provisioning in light of the economic uncertainty.

Total assets

in € million	**2022**	2021	Change	Change (%)
Cash reserves	520	1,894	(1,374)	(72.5)
Financial assets				
Held for trading	156	257	(101)	(39.3)
Fair value through profit or loss	557	611	(54)	(8.8)
Fair value through OCI	2,743	3,754	(1,011)	(26.9)
At amortized cost	51,585	48,448	3,137	6.5
Customers	35,763	34,963	800	2.3
Debt instruments	3,167	2,319	848	36.6
Credit institutions	12,655	11,166	1,489	13.3
Valuation adjustment on interest rate risk hedged portfolios	(619)	(94)	(525)	>(100)
Hedging derivatives	338	178	160	89.9
Tangible non-current assets	352	394	(42)	(10.7)
Intangible non-current assets	522	535	(13)	(2.4)
Tax assets	39	30	9	30.0
Other assets	305	318	(13)	(4.1)
Non-current assets held for sale	25	-	25	>100
Total assets	**56,523**	**56,325**	**198**	**0.4**

The **cash reserves** decreased by € 1.4 billion to € 0.5 billion in 2022.

The position **at amortized cost** increased by € 3.1 billion, or 6.5%, compared to year-end 2021 and stood at € 51.6 billion as of 31 December 2022. Customer volumes increased at a slower pace of 2.3% compared to 2021, reflecting the changed consumer sentiment following higher inflation as well as increased interest rates, which especially impacted the retail housing origination.

Valuation adjustment on interest rate risk hedged portfolios decreased by € 525 million following the changed interest rate levels in 2022.

Total liabilities and equity

in € million	2022	2021	Change	Change (%)
Total liabilities	**52,532**	**51,947**	**585**	**1.1**
Financial liabilities				
Fair value through profit or loss	204	234	(30)	(12.8)
Held for trading	692	301	391	>100
At amortized cost	50,669	49,666	1,003	2.0
Customers	34,288	35,148	(860)	(2.4)
Issued securities	10,037	7,157	2,880	40.2
Credit institutions	6,344	7,361	(1,017)	(13.8)
Financial liabilities associated with transferred assets	394	-	394	>100
Valuation adjustment on interest rate risk hedged portfolios	(891)	165	(1,056)	-
Hedging derivatives	245	107	138	>100
Provisions	284	382	(98)	(25.7)
Tax liabilities for current taxes	43	131	(88)	(67.2)
Tax liabilities for deferred taxes	95	93	2	2.2
Other obligations	797	868	(71)	(8.2)
Total equity	**3,991**	**4,378**	**(387)**	**(8.8)**
Common equity	3,520	3,902	(382)	(9.8)
AT1 capital	471	471	-	-
Non-controlling interests	-	5	(5)	>(100)
Total liabilities and equity	**56,523**	**56,325**	**198**	**0.4**

Financial liabilities at amortized cost increased by € 1.0 billion, or 2.0%, to € 50.7 billion as of 31 December 2022 compared to year-end 2021. Customer deposits decreased by 2.4% to € 34.3 billion in 2022, while issued securities increased by € 2.9 billion, reflecting five successful benchmark placements totaling € 4.0 billion in 2022 as well as two CHF issuances.

Total equity including Additional Tier 1 capital stood at € 4.0 billion as of 31 December 2022. On 5 April 2022, a € 267 million dividend was paid out for the financial year 2021. In addition, a share buyback of € 325 million was executed in the second half of 2022.

CAPITAL AND LIQUIDITY POSITION

BAWAG Group's **CET1 target ratio** is at 12.25% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

	2023	2022
Pillar 1 minimum	4.5%	4.5%
Pillar 2 requirement (CET1 requirement; total requirement 2.0%)	1.125%	1.125%
Capital conservation buffer	2.5%	2.5%
Systemic risk buffer	0.5%	0.5%
O-SII buffer[1]	0.75%	0.5%
Countercylical buffer (based on year-end exposure of 2022)	0.06%	0.06%
Overall capital requirement (OCR)	**9.43%**	**9.18%**
Pillar 2 guidance (P2G)	0.75%	0.75%
Overall capital requirement including P2G	**10.18%**	**9.93%**
CET1 target ratio	**12.25%**	**12.25%**
Management buffer to OCR (in basis points)	282	307
Management buffer to OCR including P2G (in basis points)	207	232

1) According to the KP-VO 2022, BAWAG's O-SII buffer on the consolidated level will be 0.75% starting from 1.1.2023 and 0.90% starting from 1.1.2024.

As of 31 December 2022, a fully loaded CET1 ratio of 13.5%, a fully loaded Tier 1 ratio of 15.5% and a fully loaded total capital ratio of 18.5% exceed both the target ratio and the regulatory requirements. These ratios consider the deduction of the 2022 dividend of € 305 million, which will be proposed to the Annual General Meeting on 31 March 2023. The 2022 dividend is based on a 60% payout ratio of adjusted net profit (excluding the City of Linz write-off).

The Management Board received the decision of the European Central Bank pursuant to which the ECB approved a share buyback of € 325 million on 20 July 2022. The Management Board resolved to carry out a share buyback program of € 325 million, which started on 25 July 2022 and was completed on 25 November 2022 (6.9 million shares bought back). As a consequence, we canceled 6,642,237 treasury shares with effectiveness as of 6 December 2022 which resulted in a reduction of BAWAG's share capital to € 82,500,000 (82,500,000 shares). Considering € 267 million dividends paid for 2021, we distributed € 592 million capital in total in 2022.

	2022	2021
CET1 capital (in € million)	2,793	3,012
Risk-weighted assets (in € million)	20,664	20,135
CET1 ratio (post dividend)	**13.5%**	**15.0%**
Tier1 ratio (post dividend)	**15.5%**	**17.3%**
Total capital ratio (post dividend)	**18.5%**	**20.4%**

Based on the fully loaded capital ratios as of 31 December 2022, the maximum distributable amount above the regulatory requirements for 2022 (Pillar 1 minimum ratios, Pillar 2 CET1 requirement and combined buffer requirements) is € 0.9 billion (after taking € 305 million dividend for 2022 into account). Available distributable items as defined in Art. 4.1 (128) CRR on the level of BAWAG Group AG amount to approximately € 3.2 billion as of 31 December 2022.

Capital distribution policy

Maintaining a strong capital base with a conservative buffer above regulatory requirements is a strategic priority for BAWAG Group. At the same time, we want to offer a sustainable and balanced return to our shareholders. Since the IPO in 2017, we have distributed € 1.725 billion of capital through € 1.0 billion dividends and € 725 million share buybacks. In addition, we deducted € 305 million for the 2022 dividend, which will be proposed to the Annual General Meeting on 31 March 2023. Our capital distribution framework is as follows:

Dividend – 55% payout
We target a dividend payout of 55% of net profit, barring unforeseen circumstances. Dividends will be distributed annually after the Annual General Meeting in line with the respective shareholders' resolution. Dividend distributions will comply with regulatory and/or corporate law restrictions and take into account recommendations made by a competent regulatory authority.

Excess capital management
Additional capital will be allocated to business growth, M&A, minority and/or platform investments.

Excess capital distribution
Any additional capital will be allocated to share buybacks and/or special dividends, subject to our routine annual assessment.

Payout for financial year 2022

Dividend which will be proposed to Annual General Meeting	€ 305 million
Dividend per share	€ 3.70

Developments in other types of funding

A key role of our activities is transforming deposits and other types of funding into loans. **Customer deposits** remain a key pillar of our funding strategy. As of year-end 2022, approximately 60% of our assets were funded via customer deposits. Customer deposit funding is complemented by diversified capital market funding.

While our AT1 and T2 capital needs have been addressed in 2020, BAWAG Group has been an active issuer in the covered bond space, with five successful benchmark placements totaling € 4.0 billion in 2022. In addition, two senior placements were executed successfully in the CHF market for a total of approximately € 300 million. We introduced a green bond framework in 2021, which is an important element of our funding strategy. Following on from our inaugural green bond issuance in 2021, we issued two placements under this framework in 2022.

BAWAG Group also participated in the ECB's TLTRO III program with the maximum capacity of € 6.4 billion, of which € 1.0 billion was paid back in the fourth quarter 2022. In addition, we paid back € 2.0 billion in January 2023.

MREL

In the first quarter 2022, BAWAG Group received its new MREL decision from the Single Resolution Board ("SRB"). It is based on a single point of entry resolution strategy with BAWAG P.S.K. AG as the resolution entity. The MREL requirement (including combined buffer requirement[1)]) has been set at 25.8% of RWA on the consolidated level of BAWAG P.S.K. AG, with the final requirement being applicable from 1 January 2024. The MREL decision also sets a binding interim target of 22.1% of RWA (including combined buffer requirement[1)]), which had to be met by 1 January 2022. The current MREL decision does not contain a subordination requirement. In addition to the MREL requirement in % of RWA, according to the new SRB Decision MREL requirement in % of LRE (leverage ratio exposure) has been set at 5.9% on the consolidated level of BAWAG P.S.K. AG, with the final requirement being applicable from 1 January 2022.

As of 31 December 2022, BAWAG reported MREL-eligible instruments amounting to 26.08%[2)] of RWA and 9.36% of LRE, thereby already exceeding the binding interim target in % of RWA and final requirement in % of LRE applicable from 1 January 2022.

Liquidity management

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 225% at the end of 2022. BAWAG Group thereby significantly exceeds the regulatory LCR requirement of 100%.

1) Based on 2022 year-end figures.
2) Number on BAWAG P.S.K. level

KEY QUARTERLY PERFORMANCE INDICATORS

in € million	**Q4 2022**	Q3 2022 reported	Q3 2022 adjusted	Q2 2022	Q1 2022	Q4 2021	**2022 reported**	**2022 adjusted**	2021
Net interest income	269.7	260.0	260.0	249.5	242.0	243.3	1,021.1	1,021.1	938.3
Net fee and commission income	75.0	75.0	75.0	77.8	81.4	72.5	309.3	309.3	282.1
Core revenues	344.7	335.0	335.0	327.3	323.4	315.8	1,330.4	1,330.4	1,220.4
Operating income	330.9	336.3	336.3	331.4	325.4	317.7	1,324.0	1,324.0	1,228.5
Operating expenses	(118.1)	(118.0)	(118.0)	(118.2)	(120.4)	(121.8)	(474.8)	(474.8)	(485.3)
Pre-provision profit	212.8	218.3	218.3	213.2	205.0	195.9	849.2	849.2	743.2
Regulatory charges	0.1	(3.4)	(3.4)	(7.3)	(38.4)	8.9	(48.8)	(48.8)	(51.6)
Total risk costs	(36.2)	(289.5)	(35.3)	(30.3)	(20.3)	(20.3)	(376.3)	(122.0)	(95.0)
Profit before tax	177.3	(73.4)	180.9	176.5	146.3	186.2	426.8	681.0	600.4
Income taxes	(45.4)	15.3	(48.3)	(42.8)	(35.3)	(22.3)	(108.2)	(171.9)	(120.4)
Net profit	131.9	(58.2)	132.4	133.7	110.9	163.9	318.3	508.8	479.9

(figures annualized)									
Return on common equity[1)]	16.4%	(7.1)%	16.2%	16.0%	13.3%	18.1%	9.8%	15.6%	13.6%
Return on tangible common equity[1)]	**19.6%**	**(8.5)%**	**19.3%**	**19.0%**	**15.9%**	**21.3%**	**11.6%**	**18.6%**	**16.1%**
Net interest margin	2.43%	2.31%	2.31%	2.25%	2.33%	2.26%	2.33%	2.33%	2.27%
Cost-income ratio	35.7%	35.1%	35.1%	35.7%	37.0%	38.3%	35.9%	35.9%	39.5%
Risk costs / interest-bearing assets	0.33%	2.59%	0.32%	0.27%	0.19%	0.19%	0.86%	0.28%	0.23%
Tax rate[2)]	25.6%	20.8%	26.7%	24.2%	24.1%	12.0%	25.4%	25.2%	20.1%

1) Excluding AT1 capital and dividends
2) 2021 tax rate lower due to badwill from DEPFA Group acquisition in the fourth quarter 2021
Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 350-352.

BUSINESS SEGMENTS

RETAIL & SME

Strategy

BAWAG Group is one of the leading Retail & SME financial service providers across the DACH/NL region, Western Europe and United States with Austria as our foundation. Over the past few years, we have implemented an organic and inorganic growth strategy to expand the business across new products and channels. BAWAG Group employs a multi-brand and multi-channel strategy specific to the geography, product offering and market segment. These brands range from our traditional BAWAG and easybank brands in Austria, our organically grown brand, Qlick, in Germany and to acquired franchises such as easyleasing, the acquired business of Hello bank! Austria (which has been rebranded to the easybank brand) and start:bausparkasse in Austria. In Germany, we acquired and operate under the Health Coevo AG, BFL Leasing and start:bausparkasse brands. In Switzerland, our factoring business is under the Zahnärztekasse brand. Our overarching strategy is to employ a multi-branded business model leveraging simple and efficient products and services, various distribution channels, standardized processes, consistent risk-adjusted pricing, digital innovation, data analytics and niche partnerships to provide the best financial solutions to our customers.

Focusing on our customers

BAWAG Group's customer focus underpins the Retail & SME strategy by working to make the lives of our customers easier and more manageable as it relates to their financial affairs. This entails

- providing customers with an entire range of products and services when and where they want,
- providing easy-to-use and easy-to-understand financial products at a fair price,
- leveraging new and existing technologies to simplify processes and reduce complexity,
- focusing on high-touch and high-quality advisory across a modernized branch network, as well as
- establishing new retail partnerships and leveraging lending platforms in acquiring new customers.

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 are aimed at increasing convenience and satisfaction for its customers by providing clear, transparent and easy to understand banking products and services on a 24/7 basis.

Focus on simplification and digitization

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

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

Across Austria and Germany, we currently operate with 72 branches primarily for our Transactional & Advisory Banking customers as well as small-business banking customers. Our strength is founded in our large share of primary relationships focused on current accounts, credit cards, payments, savings, brokerage, funds and insurance advisory and private banking. This fee-driven business is focused on leveraging our high-quality and high-touch advisory with deep personal relationships, allowing us to understand our customer needs and deliver tailored offerings via our simple and transparent products and services. Over the years, as customer behavior has evolved, we have rapidly shifted our customers onto digital banking channels, primarily in the non-advisory daily banking needs. We will continue to invest in our advisory capacity, align our physical footprint to the constantly changing customer behavior and invest in enhancing our overall product and service offerings.

The transformation of financial services will continue to move closer to the customers' everyday experiences through mobile and e-banking, online advisory and partnerships providing our customers the necessary financial products and services to meet their financial goals. With the acquisition of Hello bank! Austria (rebranded to easybank), we plan to further enhance our product offering in the online retail brokerage market, an area in which we see an increasing demand and interest from our Austrian customers.

Our **Retail Lending** product offering consists of secured lending products such as mortgages and building society housing products, as well as unsecured consumer loans. These products are distributed through a variety of channels (both traditional and digital), partnerships and platforms across the DACH/NL-region, Western Europe and the United States. Our processes are highly automated, enabling us to have an efficient origination process from front-to-back in the markets in which we compete. This provides for a simple, easy and straightforward customer experience. Across Austria & Germany, our 100+ sales & sales support advisors are physically located within our local communities, close to our partners and end customers, while our back office is centralized in our operations factory, which enables us to ensure timely responses to our customers. While across Western Europe and the United States, we enagage with distribution partners and platforms, levearaging our international competence, digital capabilities and centralized management to efficiently target areas of the market with attractive risk to return profiles. In each of our markets, we try to compete on enhanced customer experiences and responsive turnaround times.

Our **SME & Specialty Finance** offerings span across Austria, Germany and Switzerland, consisting of factoring, auto and equipment leasing and small-business banking (current accounts, lending and securities). We run multi-branded strategies across geographies with 150+ specialized sales & sales support advisors in the field. While our sales organizations are split by experts in certain core products, all our sales professionals are also equipped to sell any of our SME & Specialty Finance products. Our products are distributed across various channels including our branch network, digital channels and/or partner relationships. Our end customers range from private entrepreneurs, domestic and international family-run businesses to small cap public companies.

Our Retail & SME franchise is the foundation of the Bank, accounting for a ~80% core revenue contribution.

2022 Business Review

During 2022, the Retail & SME segment delivered a profit before tax of € 589.8 million, a return on tangible common equity of 34.3% and a cost-income ratio of 33.2%. During the first half of the year, customer activity was strong. However, following increasing interest rates, soaring inflation and market volatility, new business volumes slowed down substantially in the second half of 2022, driven primarily by new mortgage originations.

Despite the slowdown in new business, we delivered growth of 9% in average customer loans during 2022, mainly from mortgages and a pick-up in consumer loans. In 2022, BAWAG Group acquired the consumer loan portfolio of Sberbank Europe AG in Germany, which is serviced via our Qlick channel.

We continue to maintain disciplined pricing and focus on risk-adjusted returns to ensure responsible and profitable growth. The asset quality remained stable, with the NPL ratio at 1.6%.

While we entered another challenging period with the overall volatility experienced in 2022, our teams continued to execute on our simplification strategy. We optimized our footprint, continued to adapt to changing customer behavior and a new competitive landscape and worked to make our operations more simple, straightforward and efficient.

Outlook

We continue to execute on our long-term strategy centered around our 2.1 million customers, ensuring the best products and services are offered in the most efficient and simple manner. We further strengthen this through broadened collaborations and M&A competence in and outside of the DACH region. Our simplified operating model and focus on efficiency provides a cost advantage, enabling us to compete in low-risk but highly competitive markets and invest more to the benefit of both customers and shareholders. While we have lived through challenging environments over the last years, our promise to our customers remains the same – providing simple, transparent and reliable financial products and services they need. We expect the challenging market environment to carry into 2023. In line with our strategic commitment to maintaining a low risk profile, we will remain prudent and conservative in lending across all products.

Financial results

Income metrics (in € million)	**2022**	2021	Change (%)
Net interest income	750.2	660.1	13.6
Net fee and commission income	276.8	251.1	10.2
Core revenues	**1,027.0**	**911.2**	**12.7**
Gains and losses from financial instruments & other operating income and expenses	4.5	5.8	(22.4)
Operating income	**1,031.5**	**917.0**	**12.5**
Operating expenses	**(342.7)**	**(351.7)**	**(2.6)**
Pre-provision profit	**688.8**	**565.4**	**21.8**
Regulatory charges	(18.4)	(21.4)	(14.0)
Total risk costs	(80.6)	(60.0)	34.3
Profit before tax	**589.8**	**483.9**	**21.9**
Income taxes	(147.5)	(121.0)	21.9
Net profit	**442.4**	**362.9**	**21.9**

Key ratios	**2022**	2021	Change (pts)
Return on tangible common equity	34.3%	27.4%	6.9
Net interest margin	3.40%	3.24%	0.16
Cost-income ratio	33.2%	38.4%	(5.2)
Risk costs / interest-bearing assets	0.37%	0.29%	0.08
NPL ratio	1.6%	1.9%	(0.3)

Business volumes (in € million)	**2022**	**2021**	Change (%)
Customer loans (average)	21,990	20,177	9.0
Interest bearing assets (average)	22,065	20,344	8.5
Risk-weighted assets	9,587	8,105	18.3
Customer deposits (average)	27,979	26,839	4.2
Own issues	7,543	5,331	41.5

CORPORATES, REAL ESTATE & PUBLIC SECTOR

The **Corporates, Real Estate & Public Sector** segment focuses on domestic and international lending, deposits and payment services. Across the segment, we focus on risk-adjusted returns and conservative underwriting.

Our regional focus in the **Corporates and Real Estate business** is on the Austrian and German market as well as developed and mature markets in Western Europe and the United States. We primarily target senior secured lending to strong sponsors on cash flow generating companies and assets.

In the **Public Sector** business, our focus is on sovereigns, federal state, municipalities and public sector entities in Austria and Germany. Our goal is to maintain the strong market position in Austria and retain our cash management and payments business. We do this by focusing on high quality of service with our existing top clients, by acquiring new clients for our payments business and by focusing on specific tenders and cross-selling to existing borrowers.

2022 Business Review

During 2022, the Corporates, Real Estate & Public Sector segment delivered a profit before tax of € 194.0 million, a return on tangible common equity of 17.8% and a cost-income ratio of 22.8%. Core revenues increased by 1.4% in 2022, while maintaining our focus on risk-adjusted returns. We increased our ECL management overlay by € 15.4 million during 2022. Average customer loans increased by 7.3%, as we funded a solid pipeline of commitments primarily in real estate lending.

Higher rates and a more cautious underwriting in 2022 led to reduced demand for loans, particularly in the second half of the year. In addition, our risk appetite was also reduced on selected transactions, as we generally increased margin and reduced advance rates.

Outlook

After we proactively deleveraged in the last months of 2022, we continue to see a solid lending pipeline with diversified opportunities in 2023. However, competition for defensive, high-quality assets continues to remain high. Our focus will be maintaining our disciplined and conservative underwriting and focusing on risk-adjusted returns without ever chasing blind volume growth. We expect this year to continue to see greater volatility as central banks across our core markets may continue a process of increasing interest rates and removing liquidity after many years of quantitative easing. There are both risks and opportunities in this process, but we are cautiously optimistic that this will bring greater discipline back into the credit markets with a general repricing of risk.

Financial results

Income metrics (in € million)	**2022**	2021	Change (%)
Net interest income	262.9	258.4	1.7
Net fee and commission income	33.7	34.0	(0.9)
Core revenues	**296.6**	**292.4**	**1.4**
Gains and losses from financial instruments & other operating income and expenses	17.1	19.9	(14.1)
Operating income	**313.6**	**312.4**	**0.4**
Operating expenses	**(71.5)**	**(69.5)**	**2.9**
Pre-provision profit	**242.2**	**242.9**	**(0.3)**
Regulatory charges	(12.0)	(10.4)	15.4
Total risk costs	(36.2)	(29.0)	24.8
Profit before tax	**194.0**	**203.4**	**(4.6)**
Income taxes	(48.4)	(50.9)	(4.9)
Net profit	**145.6**	**152.5**	**(4.5)**

Key ratios	**2022**	2021	Change (pts)
Return on tangible common equity	17.8%	16.5%	1.3
Net interest margin	1.72%	1.83%	(0.11)
Cost-income ratio	22.8%	22.2%	0.6
Risk costs / interest-bearing assets	0.24%	0.21%	0.03
NPL ratio	0.7%	0.8%	(0.1)

Business volumes (in € million)	**2022**	2021	Change (%)
Customer loans (average)	14,107	13,152	7.3
Interest bearing assets (average)	15,275	14,126	8.1
Risk-weighted assets	7,502	7,894	(5.0)
Customer deposits (average)	5,475	5,413	1.2

CORPORATE CENTER AND TREASURY

Overview and strategy

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

Treasury continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our hold to collect and sell portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, short/medium duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility. The volatile market environment with consequently widening credit spreads brought opportunities to deploy part of our excess cash into the securities portfolio at attractive risk-adjusted spreads.

2022 Business Review

As of 31 December 2022, the investment portfolio amounted to € 5.0 billion and the liquidity reserve was € 11.7 billion. The investment portfolio's average maturity was four years, comprised nearly 100% of investment grade rated securities, of which 71% were rated in the single A category or higher. The portfolio had no direct exposure to China or Russia. Exposure to Central Eastern Europe continues to be moderate and comprises shorter-term, liquid bonds of well-known issuers.

The Corporate Center included in 2022 a write-off of the City of Linz receivable of € 254 million before tax (€ 190 million after tax) in the third quarter 2022. In the fourth quarter, a € 12 million recovery was reflected.

Outlook

Treasury & Markets will continue to focus on keeping streamlined processes in support of BAWAG Group's core operating activities and customer needs. In the coming year, largely restrictive measures by the central banks to combat inflation and the economic development of the industrialized countries will be the most important issues and drivers of the financial markets. We are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial results

Income metrics (in € million)	2022	2021	Change (%)
Net interest income	8.0	19.9	(59.8)
Net fee and commission income	(1.2)	(3.1)	61.3
Core revenues	**6.8**	**16.8**	**(59.5)**
Gains and losses from financial instruments & other operating income and expenses	(27.9)	(17.7)	(57.6)
Operating income	**(21.1)**	**(0.9)**	**>(100)**
Operating expenses	**(60.6)**	**(64.1)**	**(5.5)**
Pre-provision profit	**(81.8)**	**(65.0)**	**(25.8)**
Regulatory charges	(18.4)	(19.8)	(7.1)
Total risk costs	(259.5)	(6.0)	>100
Profit before tax	**(357.0)**	**(86.9)**	**>(100)**
Income taxes	87.7	51.5	70.3
Net profit	**(269.7)**	**(35.6)**	**>(100)**

Business volumes (in € million)	2022	2021	Change (%)
Assets	19,645	20,297	(3.2)
Risk-weighted assets	3,575	4,137	(13.6)
Equity	3,686	4,106	(10.2)
Own issues and other liabilities	4,689	4,637	1.1

OUTLOOK AND TARGETS

2022 was the year of the unexpected. We witnessed greater market volatility, a surge in inflation, rising interest rates, geopolitical conflict and a slowdown in economic growth during the second half of the year. While governments across Europe have made significant efforts in maintaining gas reserves and sourcing alternative gas providers, the energy market is expected to remain volatile. Therefore, the market volatility will most likely be a constant. No company will be immune to these developments and we expect 2023 to be equally challenging with continued volatility across markets.

Going into 2023, we are entering a more normalized interest rate environment based on historic rates and a return to more market-driven dynamics. The expected stagnation of GDP and the effects of inflation as well as rising interest rates for customers requires us to be more vigilant in how we manage these risks. While inflation is expected to come down in 2023, we believe that customers will still be impacted. Despite our strong record of performance over the past decade with an average RoTCE of ~15%, we have underearned over this period defined by negative interest rates. We have an opportunity to deliver more normalized returns in the years ahead. However, we should never confuse the tailwind from a normalization of interest rates with the daily execution of our strategy. Our emphasis on managing costs and maintaining a conservative and disciplined risk appetite is more important than ever. The opportunity lies in maintaining our cost discipline and focusing on risk-adjusted returns while capturing the benefits of a normalized interest rate environment. The resilience of our franchise lies in our ability to deliver results across all cycles as we are built for all seasons. Going forward, we will be able to demonstrate continued positive operating leverage as we see greater revenue growth opportunities while maintaining cost discipline. Our approach is consistent: focus on the things that we can control, be a disciplined lender, maintain a conservative risk appetite and only pursue profitable growth.

At our Investor Day in September 2021, we presented a 4-year plan. Since then, the environment has changed significantly as a result of surging inflation, rising interest rates, market volatility and geopolitical conflict. In addition, we signed an agreement to acquire Peak Bancorp, the holding company of Idaho First Bank, in 2022, which will provide us with a platform to address growth opportunities in the United States. Considering these developments, we are bringing forward the previously set 2025 financial targets to 2023. In addition, we increased our overall return targets, with the aim to run our franchise at a RoTCE of >20% and a CIR <34% going forward.

Our **outlook** and **targets** are as follows:

Outlook	2023 outlook	2022
Net interest income	>€1.2 billion	€ 1,021 million
Core revenues	>12% growth	€ 1,330 million
Operating expenses	~2%	€ 475 million
Risk cost ratio	20-25 basis points	19 basis points (underlying*)
Financial targets		2022 (adjusted**)
Profit before tax	>€ 825 million	€ 681 million
Earnings per share (excluding any potential buyback)	>€ 7.50	€ 5.81
Dividend per share (excluding any potential buyback)	>€ 4.10	€ 3.70
Return targets	2023 & beyond	2022
Return on tangible common equity	>20%	18.6%
Cost-income ratio	<34%	35.9%

* excluding the City of Linz write-off as well as the ECL management overlay.
**Note: 2022 adjusted for City of Linz write-off of € 254 million or € 190 million after tax.

We reconfirm our 2025 ESG targets:

ESG targets		2025
CO_2 emissions (own scope 1&2 emissions***)		>50% reduction vs. 2020
Women quota - Supervisory Board - Senior Leadership Team	Baseline 2020 17% 15%	 33% 33%
Green lending new business (EU-taxonomy + EU-taxonomy aligned purpose outside EU)	€ 0.8 billion	>€ 1.6 billion

***2020 base may be adjusted in case of enhanced scope, M&A etc.

In terms of capital distribution, we will target a dividend payout ratio of 55%. Our primary focus will be to allocate to business growth, M&A, minority and platform investments. Any additional excess capital will be used for share buybacks and/or special dividends, subject to our routine annual assessment.

The Management Board deducted dividends of € 305 million from CET1 capital at the end of 2022, which will be proposed as a dividend payment of € 3.70 per share to the Annual General Meeting on 31 March 2023. The dividend is based on a 60% payout ratio of net profit adjusted for the City of Linz write-off taken in 2022.

During 2022, we remained prudent in our provisioning, increasing our management overlay to € 100 million, equal to almost one year of normalized risk costs as we prepare for a potentially challenging market environment in 2023. We will continue to maintain our low-risk strategy focused on the DACH/NL region, Western Europe and the United States, providing our customers with simple, straightforward and reliable financial products and services that address our customers' needs.

RISK MANAGEMENT

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

INTRODUCTION

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

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

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

According to the internationally recognized COSO framework for the design of risk management systems and the EBA Guideline for Internal Governance (EBA/GL/2021/05), the internal control system is one part of an organization-wide risk management system. Other aspects include the management and monitoring of risks that can affect the correctness and reliability of the accounting records.

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

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Control environment

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

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

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

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

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

Risk assessment and control measures

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

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

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

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

Information and communication

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

Monitoring

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

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

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Per 31 December 2022, BAWAG Group AG's share capital amounted to € 82,500,000 and was divided into 82,500,000 non-par value bearer shares, which carry equal participation interest in the share capital of BAWAG Group AG.

BAWAG Group AG's Articles of Association contain no restrictions concerning voting rights or the transfer of shares.

Based on BAWAG Group AG's information pursuant to the major holdings notifications, no shareholder held, individually or jointly, more than 10% of BAWAG Group AG's share capital.

No shareholder has the right to delegate one of the members of the Supervisory Board according to Section 88 Austrian Stock Corporation Act (*Aktiengesetz, AktG*). The prior delegation right of GoldenTree Holdco Lux 2 S.à r.l. has been abolished in line with the resolution passed at the Annual General Meeting 2022.

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

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

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

- Without prejudice to more extensive legal provisions, the following persons shall be excluded from membership in the Management Board and in the Supervisory Board of BAWAG Group AG:
  - employees of BAWAG Group AG, with the exception of staff representatives who are appointed to the Supervisory Board in accordance with the provisions of the Works Constitution Act (*Arbeitsverfassungsgesetz, ArbVG*);
  - members of the management boards and employees of Austrian credit institutions not belonging to the BAWAG P.S.K. group; furthermore, persons holding an interest of over 5% of the voting capital of Austrian credit institutions not belonging to the BAWAG P.S.K. group, unless said credit institutions or persons themselves hold an interest of at least 2% of BAWAG Group AG's voting capital;
  - persons who are directly and immediately related or related by marriage to a member of the Management Board, the Supervisory Board or an employee of BAWAG Group AG or who are the spouse of a member of the Management Board or Supervisory Board (whereas this ground for exclusion is only applicable to the members of the Management Board and to the elected members of the Supervisory Board);
  - persons who are prevented from carrying on a trade by Section 13 Para 1 to 6 of the Trade Act of 1994 (*Gewerbeordnung, GewO*).

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

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

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

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

Furthermore, the Management Board, with the consent of the Supervisory Board, shall be authorized to exclude the statutory subscription right in the following cases:

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

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

- On 28 March 2022, 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 AktG to acquire own shares. Pursuant to the authorization, the consideration to be paid per share when acquiring shares must not be lower than € 1.0 and must not be more than 50% above the volume-weighted average price of the last 20 trading days preceding the respective purchase; in the event of a public offer, the reference date for the end of this period shall be the day on which the intention to launch a public offer has been announced. The Management Board is authorized to determine the repurchase conditions.

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

The acquisition may take place at the discretion of the 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 rights to repurchase (reverse exclusion of subscription rights) and also by using equity capital derivatives. Trading in treasury shares is excluded as a purpose for purchase.

On 28 March 2022, the Annual General 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 AktG, to adopt a resolution, subject to the consent of the Supervisory Board, on the transfer of treasury shares using a different legally permitted method of sale than through the stock exchange or a public offer and on an exclusion of pre-emption rights (subscription rights) of shareholders, and to determine the terms and conditions of the transfer of shares.

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

All of these authorizations can be used once or on several occasions. The authorizations also include the use of treasury shares held by BAWAG Group AG, as well as shares in BAWAG Group AG acquired by subsidiaries or third parties for the account of BAWAG Group AG or a subsidiary pursuant to Section 66 AktG. The authorizations shall also apply to both, treasury shares already held by BAWAG Group AG at the date of the resolution as well as to future treasury shares which are yet to be acquired.

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

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

CORPORATE SOCIAL RESPONSIBILITY AND ESG

BAWAG Group is one of the largest banking groups in Austria and is active in other core markets with 2.1 million customers. Our business activities have a major influence on the local communities, the economy and the environment. Given our business, as well as the size of the financial services industry as a whole, we must be vigilant in addressing the many challenges facing the industry in the form of competition from Big-tech, FinTech, and overall changing customer behaviors, which have only accelerated the past three years with the onset of the pandemic. In addition, environmental and social aspects connect us locally and globally as citizens in a more interconnected and interdependent world. Therefore, it is critical for us to proactively address these challenges by continuously adjusting our business model and objectives, as well as integrating these growing challenges into our risk management framework.

Doing business sustainably is the key to long-term success for all of our stakeholders. We look to create value for all our stakeholders by: being an attractive and stable employer focused on development and opportunity, a consistent partner for our customers and local communities, a reliable tax payer across the jurisdictions we operate in and a consistent source of financial returns for our investors. To achieve this requires financial resilience and a mindset of continuous improvement. Building a franchise that delivers long-term sustainable value requires consistent execution of a sound business strategy, a focus on operational excellence and an understanding that we must fundamentally change the way we consume resources over time to reduce our ecological footprint. Therefore, sustainable value creation is at the core of our decision-making and reflected in how we run the Bank. We do not pursue a separate ESG strategy, as we view it as an integral part of our overall business strategy and it is embedded across the company and our strategic roadmap.

How we address ESG at BAWAG

In order to embed ESG across the organization and drive our initiatives, we have set up dedicated committees in the Supervisory Board and Management Board as well as working groups. We have dedicated ESG officers across the Bank to drive the comprehensive integration into existing processes and strategy. Our detailed ESG initiatives are published in the Corporate Social Responsibility report.

ESG targets

Part of integrating ESG into the business is ensuring we outline specific targets that have been integrated into the Group's overall medium targets. We presented the following ESG targets for 2025 back in 2021:

ESG targets		2025
CO_2 emissions (own scope 1&2 emissions*)		>50% reduction vs. 2020
Women quota: - Supervisory Board - Senior Leadership Team	Baseline 2020 17% 15%	 33% 33%
Green lending new business (based on EU taxonomy + EU taxonomy aligned purpose outside EU)	€ 0.8 billion	>€ 1.6 billion

*2020 base may be adjusted in case of enhanced scope, M&A etc.

To reduce our own CO2 emissions (scope 1 & 2) we will switch our entire vehicle fleet to electric cars, reduce emissions caused by heating through investments in infrastructure as well as an ongoing reduction of our footprint. In order to achieve our green lending target, we expect to see a higher share of our originations in green mortgages, opportunities in the corporates and public sector, an increase in electric car leasing and solar panel financing.

Our climate-related and environmental view

As a bank primarily focused on Retail & SME with the target to further grow that share as part of our business, our overall approach is to support the transition through the increase in new green business as reflected in our targets until 2025, commit to maintain a low exposure to high-emitting GHG sectors and to regularly review and assess our lending criteria. In addition, we plan to issue one green bond per year, depending on market conditions.

Our carbon footprint

As a bank, we can influence climate change in two ways: Our direct use of resources as a bank is fairly limited, however we have continuously driven initiatives to reduce our emissions and set a target to reduce our CO2 emissions (scope 1 and 2) by over 50% by 2025 versus 2020. More important is our indirect impact through our lending and investment activities. To limit the negative impact of our lending portfolio, we decided to implement lending criteria for selective industries with high ESG-risks, consisting of industry exclusions and restrictions since 2021. We review this list on an annual basis in order to consider any new developments and will tighten the criteria where applicable. We currently have zero exposure to prohibited businesses. Our oil and gas-related industry exposures are less than 1% of total assets. The detailed list is published in the Corporate Social Responsibility Report as well as the up-to-date lending criteria on our website. We expect to maintain the already low levels of ESG risks in our portfolio of <2% exposure in moderate to high or high emitting industries.

As an SSM institute, BAWAG Group participated in the first stress test on climate and environmental risks where the ECB assessed how prepared banks are for dealing with financial and economic shocks stemming from climate risk scenarios over a 30-year time horizon. We successfully completed the exercise with an above average overall rating (ca. top 35% of banks) considering all the elements assessed and indicating a rather low impact of climate risks related to our business model. Additionally, in the seven highest GHG-emitting sectors as defined by the ECB for the stress test, BAWAG has 8.7% of total non-financial corporate exposure to these sectors. This compares favorably to a median of 29% average of exposure to these high GHG emitting sectors among all participating banks for diversified lenders in the ECB climate stress test sample. However, we continue to work on the development and expansion of our Climate & Environment risk management and will implement the learnings gained from this exercise.

While we currently only disclose scope 1 and scope 2 emissions, we decided to measure and disclose financed emissions using the PCAF Global GHG Accounting and Reporting Standard for the Financial Industry. We have started to collect ESG data from customers as well as have defined methodologies in place. Our target is to start disclosing CO_2 emissions of our lending and investment book during 2023. The key challenge when reporting on climate-related topics mainly relates to data availability and data quality provided by customers to comprehensively calculate CO_2 emissions within our lending book.

Further integrating ESG risks into management framework

Because ESG risks span across all risk management pillars, we pursue a multidimensional steering approach within our risk management framework. It is embedded in our key risk policies and processes, ensuring an appropriate consideration of ESG risks. New or modified products and lines of business are examined for ESG contribution based on the ESG statement, inherent risk as well as the general conditions under which the product should be introduced. Service providers are evaluated for their ESG commitment as part of our outsourcing assessments. In the annual risk process assessment (RCSA), ESG-relevant aspects are identified from an operational and organizational perspective including internal controls contributing to risk mitigation.

The interaction of ESG risks and other material risk types is analyzed as part of the overarching risk materiality assessment. Scenarios have been defined as a starting point comprising both physical risks and transition risks, thus providing a holistic view of ESG risks impacting our Bank. ESG risk is integrated into our ICAAP and stress test framework following the ECB's Guide on climate-related and environmental risks (November 2020), allowing an integral steering across the different risk types.

The management of restricted and prohibited sectors as part of the underwriting and loan origination process is essential.

The implemented risk management framework ensures the effective identification, measurement and management of risks across the Group and builds the basis to make informed risk-based business decisions. It allows us to react quickly and proactively to market trends or other deteriorating developments as well as support the Bank's sustainable organic and inorganic growth within the overall risk appetite.

Diversity & female leadership

We believe our diversity, inclusivity and meritocratic culture are a real source of strength of the company. The team members come from 53 different nationalities, and we are fully committed to equity and diversity. This will be a byproduct of merit, integrity and work ethic. Our greatest asset is our human capital, so we are focused on developing and mentoring our team members across the ranks. Today, our Senior Leadership Team, totals 88 team members, comprised of 11 nationalities with female representation of 28%. We are proud of the recent promotions this past year, but recognize we have more to do.

Growing a diverse and inclusive Supervisory Board & Senior Leadership Team with increased female representation is one of our priorities. The Supervisory Board is currently comprised of 44% female representation since 2021. We also target at least 33% female representation across our Senior Leadership Team. We are not there yet; however, through the early identification and promotion of top talent across functions, assessment of key development opportunities and establishes a multi-year leadership development plan, we feel confident that we will reach this target by 2025.

Outlook

While we have continuously worked on enhancing our disclosure on the most critical ESG risks for the banking industry, we are aware that the financial industry plays a key role in combating climate change through its lending practices. Being sustainable is embedded in the choices we make – as a financial partner, as a business partner and how we select our suppliers. However, we are aware that our standards and engagement can be more developed and the disclosure on environmental data enhanced and further integrated into our risk management frameworks. We aim to achieve this in the coming years. In addition, we are preparing for the upcoming regulatory and disclosure requirements, where we have set up a project team with the proper focus and responsibilities in 2023.

CSR REPORTING

As of the financial year 2017, the Austrian Sustainability and Diversity Improvement Act extended and specified the reporting obligations for non-financial information (environmental, social and employee issues, respect for human rights and anti-corruption) in the Group Management Report by implementing EU Directive 2014/95/EU. Since the reporting for financial year 2021, the reporting requirement was enhanced by the EU Taxonomy 2020/852 and the Disclosures Delegate Act 2021/2178. The purpose of mandatory reporting is to increase the transparency and comparability of non-financial information.

In 2022, BAWAG Group again uses the statutory option provided for in Section 267a Para 6 UGB to produce a separate consolidated non-financial report. This report can be downloaded from the BAWAG Group website under https://www.bawaggroup.com/csr

RESEARCH AND DEVELOPMENT

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

BRANCHES

Since November 2014 BAWAG has a branch in London, which offers and structures loans to international clients.

In 2020, a branch of BAWAG P.S.K. was opened in Germany, which started its operations in 2021 once the merger with Südwestbank AG was entered in the company register.

We opened a representative office in the United States in 2022.

27 February 2023

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O'Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

Consolidated Financial Report

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

CONTENTS

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	2022	2021
Interest income		1,309.4	1,128.0
thereof calculated using the effective interest method		1,164.1	840.0
Interest expense		(304.3)	(207.4)
thereof calculated using the effective interest method		(136.7)	(110.4)
Dividend income		16.0	17.7
Net interest income	**[3]**	**1,021.1**	**938.3**
Fee and commission income		389.0	353.0
Fee and commission expense		(79.7)	(70.9)
Net fee and commission income	**[4]**	**309.3**	**282.1**
Gains and losses on financial assets and liabilities	[5]	(13.2)	11.3
thereof gains from the derecognition of financial assets measured at amortized cost		–	0.1
thereof losses from the derecognition of financial assets measured at amortized cost		(9.0)	0.0
Other operating income	[6]	87.7	198.3
Other operating expenses	[6]	(125.5)	(248.2)
Operating expenses		(479.0)	(490.1)
thereof administrative expenses	[7]	(416.2)	(421.6)
thereof depreciation and amortization on tangible and intangible non-current assets	[8]	(62.8)	(68.5)
Risk costs	[9]	(376.3)	(95.0)
thereof according to IFRS 9		(110.6)	(69.6)
Share of the profit or loss of associates accounted for using the equity method	[10]	2.7	3.8
Profit before tax		**426.8**	**600.4**
Income taxes	[11]	(108.2)	(120.4)
Profit after tax		**318.6**	**480.0**
Thereof attributable to non-controlling interests		0.3	0.1
Thereof attributable to owners of the parent		**318.3**	**479.9**

STATEMENT OF OTHER COMPREHENSIVE INCOME

in € million	[Notes]	2022	2021
Profit after tax		**318.6**	**480.0**
Other comprehensive income	**[32]**		
Items that will not be reclassified to profit or loss			
Actuarial gains (losses) on defined benefit plans		50.1	14.8
Fair value changes of shares and other equity investments at fair value through other comprehensive income		(31.9)	84.7
Change in credit spread of financial liabilities		6.5	(0.1)
Income tax on items that will not be reclassified		(8.8)	(24.7)
Total items that will not be reclassified to profit or loss		**15.9**	**74.7**
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences		9.4	12.0
Hedge of net investment in foreign operations		(9.1)	(10.3)
Cash flow hedge reserve		3.5	(27.8)
thereof transferred to profit (-) or loss (+)[1)]		12.0	0.1
Fair value changes of debt instruments at fair value through other comprehensive income		(129.2)	(32.2)
thereof transferred to profit (-) or loss (+)		22.0	(39.4)
Share of other comprehensive income of associates accounted for using the equity method		(17.5)	(2.5)
Income tax relating to items that may be reclassified		32.1	15.3
Total items that may be reclassified subsequently to profit or loss		**(110.7)**	**(45.4)**
Other comprehensive income		**(94.8)**	**29.3**
Total comprehensive income, net of tax		**223.8**	**509.4**
Thereof attributable to non-controlling interests		0.3	0.2
Thereof attributable to owners of the parent		**223.5**	**509.2**

1) To net interest income.

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	31.12.2022	31.12.2021
Cash reserves	[12]	520	1,894
Financial assets at fair value through profit or loss	[13]	557	611
Financial assets at fair value through other comprehensive income	[14]	2,743	3,754
Financial assets held for trading	[15]	156	257
Financial assets measured at amortized cost	[16]	51,585	48,448
Customers		35,763	34,963
Credit institutions		12,655	11,166
Securities		3,167	2,319
Valuation adjustment on interest rate risk hedged portfolios		(619)	(94)
Hedging derivatives	[31]	338	178
Property, plant and equipment	[18]	268	290
Investment properties	[18]	84	104
Goodwill	[19]	98	96
Brand names and customer relationships	[19]	242	254
Software and other intangible assets	[19]	182	185
Tax assets for current taxes		21	20
Tax assets for deferred taxes	[20]	18	10
Associates recognized at equity	[52]	25	42
Other assets	[21]	280	276
Non-current assets held for sale	[22]	25	–
Total assets		**56,523**	**56,325**

Total liabilities and equity

in € million	[Notes]	31.12.2022	31.12.2021
Total liabilities		**52,532**	**51,947**
Financial liabilities designated at fair value through profit or loss	[23]	204	234
Financial liabilities held for trading	[24]	692	301
Financial liabilities at amortized cost	[25]	50,669	49,666
Customers		34,288	35,148
Issued bonds, subordinated and supplementary capital		10,037	7,157
Credit institutions		6,344	7,361
Financial liabilities associated with transferred assets	[40]	394	–
Valuation adjustment on interest rate risk hedged portfolios		(891)	165
Hedging derivatives	[31]	245	107
Provisions	[29]	284	382
Tax liabilities for current taxes		43	131
Tax liabilities for deferred taxes	[20]	95	93
Other obligations	[30]	797	868
Total equity	**[32]**	**3,991**	**4,378**
Equity attributable to the owners of the parent (ex AT1 capital)		3,520	3,902
AT1 capital		471	471
Non-controlling interests		0	5
Total liabilities and equity		**56,523**	**56,325**

STATEMENT OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates
Balance as of 01.01.2021	**87.9**	**1,148.1**	**470.5**	**2,712.9**	**(1.1)**	**(114.0)**	**116.6**
Transfer from other comprehensive income	–	–	–	(1.9)	–	–	–
Transactions with owners	0.9	0.2	–	(460.0)	–	–	–
Share-based payment	0.9	0.2	–	–	–	–	–
Dividends	–	–	–	(460.0)	–	–	–
Transactions with non-controlling interests	–	–	–	0.0	–	–	–
AT1 coupon	–	–	–	(24.5)	–	–	–
Total comprehensive income	–	–	–	479.9	(20.8)[1)]	11.1	(23.8)[1)]
Balance as of 31.12.2021	**88.9**	**1,148.3**	**470.5**	**2,706.4**	**(21.9)**	**(102.9)**	**92.8**
Balance as of 01.01.2022	**88.9**	**1,148.3**	**470.5**	**2,706.4**	**(21.9)**	**(102.9)**	**92.8**
Transfer from other comprehensive income	–	–	–	3.7	–	–	–
Transactions with owners	(6.7)	9.3	–	(585.1)	–	–	–
Share-based payment	0.2	9.3	–	–	–	–	–
Dividends	–	–	–	(267.0)	–	–	–
Buyback of shares	(6.9)	–	–	(318.1)	–	–	–
Transactions with non-controlling interests	–	–	–	0.5	–	–	–
AT1 coupon	–	–	–	(24.0)	–	–	–
Total comprehensive income	–	–	–	318.3	2.6[1)]	34.7	(96.3)[2)]
Balance as of 31.12.2022	**82.2**	**1,157.6**	**470.5**	**2,419.8**	**(19.3)**	**(68.2)**	**(3.5)**

1) Thereof transferred to profit or loss: plus € 9.0 million (2021: plus € 0.1 million).
2) Thereof transferred to profit or loss: plus € 16.5 million (2021: minus € 29.4 million).

	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
	4.5	**(18.8)**	**(54.1)**	**17.5**	**(20.6)**	**4,349.4**	**4.3**	**4,353.7**
	–	–	–	–	–	(1.9)	–	(1.9)
	–	–	–	–	–	(458.9)	0.0	(458.9)
	–	–	–	–	–	1.1	–	1.1
	–	–	–	–	–	(460.0)	0.0	(460.0)
	–	–	–	–	–	0.0	–	0.0
	–	–	–	–	–	(24.5)	–	(24.5)
	(2.5)	63.7	0.0	(10.3)	12.0	509.2	0.2	509.4
	2.0	**44.9**	**(54.2)**	**7.2**	**(8.6)**	**4,373.4**	**4.5**	**4,377.9**
	2.0	**44.9**	**(54.2)**	**7.2**	**(8.6)**	**4,373.4**	**4.5**	**4,377.9**
	–	(3.7)	–	–	–	–	–	–
	–	–	–	–	–	(582.5)	0.0	(582.5)
	–	–	–	–	–	9.5	–	9.5
	–	–	–	–	–	(267.0)	0.0	(267.0)
	–	–	–	–	–	(325.0)	–	(325.0)
	–	–	–	–	–	0.5	(4.5)	(4.0)
	–	–	–	–	–	(24.0)	–	(24.0)
	(17.5)	(23.6)	4.8	(9.0)	9.5	223.5	0.3	223.8
	(15.5)	**17.5**	**(49.3)**	**(1.8)**	**0.9**	**3,990.9**	**0.3**	**3,991.2**

CASH FLOW STATEMENT

in € million	[Notes]	2022	2021
I. Profit (after tax, before non-controlling interests)	Profit or loss statement	**319**	**480**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[8], [9]	439	79
Changes in provisions	[29]	25	158
Changes in other non-cash items		(706)	66
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[5], [6]	(2)	17
Share of profit of equity-accounted investees, net of tax	Profit or loss statement	(3)	(4)
Other adjustments (mainly interest income and interest expenses)		(932)	(931)
Subtotal		**(860)**	**(135)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Financial assets at amortized cost		(2,642)	(2,606)
Other financial assets (not including investing activities)		(495)	454
Other assets		8	(90)
Financial liabilities at amortized cost		(1,809)	1,315
Other financial liabilities (not including financing activities)		4,654	512
Other obligations		(76)	44
Interest receipts		1,291	1,066
Dividend receipts	Profit or loss statement	16	18
Dividends from equity-accounted investees		3	3
Interest paid		(265)	(223)
Income taxes paid		(174)	(46)
II. Net cash from operating activities		**(349)**	**312**
Cash receipts from sales and redemptions of			
Debt instruments at amortized cost		91	703
Debt instruments, subsidiaries and other equity instruments at fair value through other comprehensive income		1,394	1,908
Tangible and intangible non-current assets, investment properties		23	223
Cash paid for			
Subsidiaries and other equity instruments at fair value through other comprehensive income		(4)	(59)
Debt instruments at amortized cost		(1,114)	(584)
Debt instruments at fair value through other comprehensive income		(711)	(707)
Tangible and intangible non-current assets	[18], [19]	(57)	(42)

in € million	[Notes]	2022	2021
Acquisition of subsidiaries, net of cash acquired		–	(253)
III. Net cash used in investing activities		**(378)**	**1,188**
Changes in treasury shares	Statement of changes in equity	(325)	–
Dividends paid	Statement of changes in equity	(267)	(460)
Changes in ownership interests in subsidiaries not resulting in a loss of control		(1)	–
AT1 coupon	Statement of changes in equity	(24)	(25)
Cash paid for amounts included in lease liabilities		(30)	(25)
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)		–	(3)
IV. Net cash from financing activities		**(647)**	**(513)**
Cash and cash equivalents at end of previous period		**1,894**	**907**
Net cash from operating activities		**(349)**	**312**
Net cash used in investing activities		**(378)**	**1,188**
Net cash from financing activities		**(647)**	**(513)**
Cash and cash equivalents at end of period		**520**	**1,894**

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

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

The consolidated financial statements were prepared applying section 59a BWG in connection with section 245a UGB, 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 2022.

These consolidated financial statements for BAWAG Group according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2022. Associates are accounted for using the equity method. The principle of materiality is applied.

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 to all of the financial years stated in these consolidated financial statements.

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

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

Scope of consolidation and consolidation principles

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

As of 31 December 2022, the consolidated financial statements included 41 (2021: 48) fully consolidated companies and 2 (2021: 2) companies that are accounted for using the equity method in Austria and abroad.

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 have 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 € 0 million (2021: € 0 million) on 31 December 2022. Controlled companies with a carrying amount of € 26 million (2021: € 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 Notes 49 and 50.

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

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

Capitalized goodwill in the amount of € 98 million (2021: € 96 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash-generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

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

Currently, the goodwill is allocated to the easybank franchise (€ 59 million), Zahnärztekasse AG (€ 23 million), Health Coevo AG (€ 15 million), brokerage business (€ 1 million), BAWAG P.S.K. Versicherung AG (€ 11 million) and PSA Payment Services Austria GmbH (€ 1 million) – the latter two entities are accounted for using the equity method – as these are the smallest CGUs to which goodwill can be assigned. Further details on the entities accounted for using the equity method can be found in Note 36 and Note 52.

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

Also, all equity investments were tested for indicators of a sustained or material impairment. Impairment tests were carried out if necessary due to the indicators. Further details can be found in the respective chapter of Note 1.

All non-consolidated equity instruments are measured according to IFRS 9 and classified as fair value through OCI or fair value through profit or loss. Further details can be found in Note 50.

Latitude of judgment and uncertainty of estimates

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

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

The determination of the fair value for financial assets and liabilities for which there is no observable market price (Level 3) requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 1 Accounting policies and in Note 34 Fair value. For details regarding effects of COVID-19 and the Russia-Ukraine conflict as at 31 December 2022, please also refer to Note 34 Fair value.

Assessments of the recoverability of long-term loans are based on management assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business. In light of the COVID-19 pandemic and the Russia-Ukraine conflict, assessment regarding the measurement of individual financial assets, assessments regarding the transfer of financial instruments from Stage 1 to Stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans are based on the latest observations available to us. The long-term impact of the pandemic on economic development, the development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be overestimated or underestimated when applying hindsight in the future. For details regarding effects of COVID-19 and the geopolitical situation as at 31 December 2022, please refer to the Risk Report.

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

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. The Group regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 1 Accounting policies and in Note 20 Net deferred tax assets and liabilities on the 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 Bank may also face an impact from changing weather patterns and consequently see an impact on the loan portfolio or any collaterals (e.g. through floodings). Other ESG risks may contain changes in client behavior, changes in relevant legislation, etc. ESG risks may impact our planning assumptions used for impairment testing, valuation of collateral and financial instruments. The analysis and monitoring of these risks is an ongoing process. For further information on ESG risks, we refer to the Risk Report.

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

- recoverability of intangible assets (see chapter "Intangible non-current assets, property, plant and equipment" of Note 1)
- recognition of provisions for uncertain liabilities
- assessments of legal risks from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- assessment of the lease term applied for the standard IFRS 16 Leases
- assessing which entities are structured entities, and which involvements in such entities are interests
- IFRS 9: Judgment may be required when assessing the SPPI criterion to ensure that financial assets are classified into the appropriate measurement category.

City of Linz

On 12 February 2007, the City of Linz and BAWAG Group concluded a swap agreement. This transaction was intended to optimize a Swiss Franc bond issued by the City of Linz.

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

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million. That amount corresponds to the net cash payments made by the City of Linz whilst performing the swap agreement. BAWAG Group filed a suit against the City of Linz for performance of its contractual rights arising from the same transaction in the amount of € 417.7 million. In April 2019, the City of Linz filed a motion for an interim judgment to determine whether the swap agreement is valid. In August 2022 the Supreme Court rendered a binding ruling that the swap agreement is invalid. As a consequence of the Supreme Court's ruling, BAWAG Group derecognized its entire remaining City of Linz receivable of € 254 million.

Subsequently City of Linz and BAWAG Group reached an out-of-court settlement. Against payment of € 12 million by the City of Linz, both parties waived their mutually purported claims with each party bearing its own legal costs.

IFRS 9 Financial Instruments

Financial instruments are recognized and derecognized on the trade date.

Classification of financial assets and financial liabilities

Financial assets – Debt instruments

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

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

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

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

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

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

Business model assessment for financial assets

The Group identified the following business models:

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

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

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

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

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

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

Assessment whether contractual cash flows are solely payments of principal and interest for financial assets

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

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

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

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

Financial liabilities

In accordance with IFRS 9, financial liabilities
- not held for trading or
- designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

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

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

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

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

Reclassifications

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

Contractual modifications

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

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

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

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

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

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

Equity instruments

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

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

Impairment

Please see the Risk Report for information about impairments.

Cash reserves

Cash reserves include cash on hand and balances at central banks. Cash reserves are carried at amortised cost in the Statement of Financial Position.

Hedge accounting

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

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

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

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

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

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

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

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

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

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

The Group's interest rate risk management strategy has neither changed due to the COVID-19 pandemic nor due to the Russia-Ukraine conflict.

Implications on the accounting of hedging derivatives in connection with Brexit

As of 31 December 2022, BAWAG Group uses hedging derivatives with a notional amount of € 295 million (2021: € 221 million) and a market value of € 12 million (2021: € 2 million) in a hedging relationship that were cleared via London Clearing House. The London Clearing House will keep its status as a third country central clearing counterparty (TC-CCP) under EMIR until 30 June 2025. Thus, there were no implications on the Group financials of BAWAG Group in 2022 and 2021. BAWAG Group will monitor the development of this topic and will take appropriate measures if necessary.

Micro fair value hedge

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

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

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

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

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

Portfolio fair value hedge

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

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

In addition to the reason mentioned in the Micro fair value hedge section (OIS/IBOR basis spread), inefficiencies in portfolio fair value hedge accounting will arise if the volume of hedging transactions exceeds the actual volumes of the hedged positions.

Cash flow hedge

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

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

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

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in 2022 fair value gains in the amount of € 3.5 million (2021: losses in the amount of minus € 27.8 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied cash flow hedge accounting.

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

Net investment hedge

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

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

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

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

In other comprehensive income, the changes in the value of the hedging instruments are reported under Hedge of net investment in foreign operations. In 2022, fair value losses in the amount of € 9.1 million (2021: losses of minus € 10.3 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied net investment hedge accounting.

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

IBOR reform

BAWAG Group is closely monitoring current developments regarding interest benchmark reforms and the use of risk-free rates (IBOR reform). Given that substantial parts of the Bank's balance sheet are linked to Euribor rates in EUR and Libor rates for legacy business in USD, the Bank already conducted intensive analyses of potential impacts in order to initiate timely preparations for the adaption of benchmark interest rates. These Bank-wide analyses included, inter alia, implications on clients (pricing and contracts), hedging, systems and financial results. Based on this assessment, clear tasks and responsibilities (finance, risk, legal, operations, market, tech) have been assigned to implement necessary adaptions. The Bank completed the transition to reformed IBOR rates in GBP and CHF in 2022 and is planning to complete the transition to reformed IBOR rates for USD legacy business by 30 June 2023.

The European Commission has issued a regulation directly applicable in Austria, which provides that the CHF LIBOR used as a rate in all existing contracts (e.g. current account and loan agreements) will be replaced by the SARON Compound Rate as of 1 January 2022. In order to compensate for structural differences between LIBOR and the SARON Compound Rate and thus not to change the original interest rate level to the disadvantage of one party, the regulation provides for fixed spread adjustment which – depending on the duration of the interest period – slightly decreases or increases the SARON Compound Rate. The BAWAG Group has informed its customers about this statutory successor rate and will apply it in the contracts from 1 January 2022.

It is expected that the reform of IBOR rates will also have an impact on the Bank's defined interest rate risk steering and management framework. In line with its risk management objectives, the Bank currently is steered and hedged against 3M Euribor and Libor for legacy business in USD, including respective hedge accounting relationships. For business in GBP, CHF and new business in USD, steering and hedging is based on overnight rates. BAWAG Group uses fair value hedge accounting (micro fair value and portfolio fair value hedges), cash flow hedge accounting and net investment hedges to mitigate market risks. Hedging instruments and hedged items are predominantly denominated in euro, US dollar, British pound and to a lesser extent in Swiss francs. As of 31 December 2022, approximately € 40 billion (2021: € 29 billion) of hedging instruments were assigned to a hedge accounting relationship (approximately € 17 billion [2021: € 13 billion] in hedged assets and approximately € 23 billion [2021: € 16 billion] in hedged liabilities).

Non-derivative financial assets and financial liabilities as of 31 December 2022

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total assets	**21,391**	**5,954**	**–**	**–**	**2,566**	**2,509**	**–**	**–**	**371**	**360**
Loans and advances	20,119	4,789	–	–	2,517	2,509	–	–	371	360
Debt securities	1,272	1,166	–	–	49	–	–	–	–	–

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total liabilities	**1,511**	**302**	**–**	**–**	**151**	**–**	**–**	**–**	**–**	**–**
Deposits	1,496	300	–	–	151	–	–	–	–	–
Debt securities issued	14	2	–	–	–	–	–	–	–	–

The securities without replacement language have a total notional of less than € 50 million, will mature within the next 3 years and refer to € benchmark interest rates.

Non-derivative financial assets and financial liabilities as of 31 December 2021

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total assets	**22,823**	**6,593**	**934**	**127**	**3,660**	**3,599**	**191**	**191**	**230**	**213**
Loans and advances	21,999	5,834	934	127	3,614	3,599	191	191	230	213
Debt securities	824	759	–	–	46	–	–	–	–	–

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total liabilities	**1,743**	**302**	**–**	**–**	**140**	**–**	**–**	**–**	**–**	**–**
Deposits	1,726	300	–	–	140	–	–	–	–	–
Debt securities issued	17	2	–	–	–	–	–	–	–	–

Derivatives and hedge accounting

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

ISDA has reviewed its definitions in light of the IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a nonrepresentative determination of an IBOR. The Group has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. For derivative counterparties also adhering to the protocol, new fallbacks were then automatically implemented in existing derivative contracts when the supplement became effective – i.e. on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the Group is monitoring whether its counterparties will also adhere to the protocol and, if there are counterparties that will not, then the Group plans to negotiate with them bilaterally about inclusion of new fallback clauses. Counterparties for derivative contracts in the currencies of GBP, CHF and USD are adhering to the protocol, therefore no negotiations were necessary with these counterparties. For derivatives in the currencies of GBP and CHF, the transition was completed in 2022, for derivatives in USD, the transition will be completed by 30 June 2023.

The following tables show the total amounts of unreformed derivative instruments and amounts that include appropriate fallback language at 1 January 2022 and at 31 December 2022 and at 1 January 2021 and at 31 December 2021, respectvely. For cross-currency swaps, the Group used the notional amount of the receive leg of the swap. The Group expects both legs of cross-currency swaps to be reformed simultaneously.

	CHF LIBOR		GBP LIBOR		USD LIBOR		EONIA	
in € million	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31.12.2022	**–**	**–**	**–**	**–**	**5,294**	**5,294**	**–**	**–**
Derivatives held for risk management								
Interest rate swaps	–	–	–	–	287	287	–	–
Cross-currency swaps	–				5,007	5,007	–	–
01.01.2022	**–**	**–**	**–**	**–**	**5,585**	**5,585**	**–**	**–**
Derivatives held for risk management								
Interest rate swaps	–	–		–	804	804	–	–
Cross-currency swaps	–	–	–	–	4,781	4,781	–	–

	CHF LIBOR		GBP LIBOR		USD LIBOR		EONIA	
in € million	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31.12.2021	**–**	**–**	**–**	**–**	**5,585**	**5,585**	**–**	**–**
Derivatives held for risk management								
Interest rate swaps	–	–	–	–	804	804	–	–
Cross-currency swaps	–	–	–	–	4,781	4,781	–	–
01.01.2021	**1,199**	**1,199**	**1,760**	**1,760**	**4,306**	**4,306**	**1,500**	**1,500**
Derivatives held for risk management								
Interest rate swaps	297	297	537	537	1,107	1,107	1,500	1,500
Cross-currency swaps	903	903	1,224	1,224	3,199	3,199	–	–

Financial guarantees

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

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

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

Methods for determining the fair value of financial instruments

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

Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit-linked notes

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

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

Measurement for asset backed investments

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

Fair value of participations

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

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

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

The post-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. The following parameters are used as of 31 December 2022:

- The risk-free rate (2.36%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank (2021: -0.12%; 30-year spot rate).
- The indicator for the country-specific market risk premium are the website of Damodaran, the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose Business Valuation working group sets a range from 7.5% to 9% (2021: 7.5% to 9%) for the expected nominal market yield, and an update to that

recommendation from 5 October 2022. Due to the recent rise in yield expectations on the European capital markets, a market risk premium of 7.14% (2021: 8.13%) was chosen.

- The applied beta factor for banks and financial service companies (1.09) is the two-year weekly average beta of 10 banks listed on European stock exchanges with retail as their core business. To avoid unsustainable overemphasis of the market in the wake of one-time events or a crisis, a rolling beta factor is derived, the two-year betas of the peer group are formed over 12 quarters taking the mean value (rolling beta). Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 and/or a value for the t-test (hypothesis test) of at least 1.98 qualify for the peer group. The applied beta factor for stock exchanges is 0.82. (2021: The applied beta factor for banks and financial service companies [1.10] is the two-year weekly average beta of 12 banks listed on European stock exchanges with retail as their core business. To avoid unsustainable overemphasis of the market in the wake of the COVID-19 crisis, a rolling beta factor is derived, the two-year betas of the peer group are formed over 12 quarters taking the mean value [rolling beta]. Bloomberg serves as the relevant source. Banks with an R^2 [coefficient of determination] of at least 0.15 and/or a value for the t-test [hypothesis test] of at least 1.98 qualify for the peer group. The applied beta factor for stock exchanges is 0.84.)

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

Transfers of financial instruments

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

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

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

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

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

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

Intangible non-current assets, property, plant and equipment

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

Intangible non-current assets with an indefinite useful life are recognized at cost less impairments and plus reversals of impairments. Brands are not amortized as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life if there are no legal, contractual, regulatory or other factors limiting that useful life. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments and plus reversals of impairments. Buildings are depreciated at an annual rate of between 2.0% and 4.0% (2021: between 2.0% and 4.0%), other furniture and equipment is depreciated at annual rates between 2.0% and 50.0% (2021: between 2.0% and 50.0%), while IFRS 16 right-of-use assets are depreciated at annual rates between 5.0% and 48.0% (2021: between 5.0% and 85.7%). Purchased and self-produced software and other intangible assets and rights (other than goodwill and brand names) are amortized at annual rates between 2.8% and 33.3% (2021: between 2.8% and 33.3%). Customer relationships are amortized over approximately 8–30 years (2021: approximately 8–30 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 19.

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

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

Government grants

Government grants are recognized in BAWAG Group's consolidated financial statements when there is reasonable assurance that they will be received and that BAWAG Group will comply with the conditions attached to them. These grants relate to the acquisition of assets, are presented as deductions from the acquisition costs of the related asset and are recognized in profit or loss over the periods and in the proportions in which depreciations and amortizations on those assets are recognized.

The total amount of government grants recognized amounts to € 0.3 million as of 31 December 2022 (2021: € 0.0 million). This amount relates to an investment program in Austria ("Investitionsprämie") offered to support the economy in the COVID-19 crisis by supporting the acquisition of property, plant and equipment and intangible assets.

Investment properties

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

Impairment testing

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

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (depending on the business model 0.5% to 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 6.93% for Zahnärztekasse AG and 10.23% for all other entities (2021: 6.73% for Zahnärztekasse AG and 9.29% for all other entities). The planning assumptions for the period 2023–2027 are based on the ECB's economic assumptions and adequate estimates for risk costs. The planning input is based on the business strategy, which envisages organic growth in the core market and continuous improvement of our product range.

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

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

IFRS 16 Leases

Definition of a lease

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

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

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

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

BAWAG Group as lessor

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

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

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

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

The operating leasing business is not material for BAWAG Group.

BAWAG Group as lessee

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

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

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

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

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

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

Income taxes and deferred taxes

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

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

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

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2022, unused tax losses amounted to € 0 million (2021: € 0 million) at the level of BAWAG Group AG, € 7 million (2021: € 9 million) at the level of members of the tax group included in the consolidated financial statements and € 2 million (2021: € 0 million) at the level of other companies included in the consolidated financial statements, hence a total of € 9 million (2021: € 9 million). Tax goodwill amortization contributed another € 76 million per year as tax-deductible expenses until the end of 2021.

The utilizability of unused tax losses and deferred tax assets by BAWAG Group was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to € 6 million (2021: € 6 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately € 1 million (2021: € 1 million) are recognized within BAWAG Group. If the forecasted taxable results varied by 10% compared to management estimates, deferred tax assets would remain unchanged (2021: would remain unchanged) if results improve and would remain unchanged (2021: would remain unchanged) if forecasted results turn out to be lower than expected. COVID-19 and the Russia-Ukraine conflict have no effect on the utilizability of unused tax losses of BAWAG Group.

Foreign subsidiaries had tax loss carryforwards of € 101 million as of 31 December 2022 (2021: € 103 million), for which no deferred tax asset was recognized.

A tax group pursuant to section 9 KStG was parented by BAWAG Group AG in the financial year. On 31 December 2022, the tax group consisted of the group parent and 27 members, both consolidated and non-consolidated in these financial statements (2021: group parent and 27 members).

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

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

As of 31 December 2022, the exit of BAWAG Group AG from the tax group and the exit of all other group members, with the exception of the new members in 2021 and 2022, would not result in a corporate income tax back payment as of 31 December 2022 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 2021 and 2022 would incur a corporate income tax back payment in the amount of € 0 million (2021: € 1 million).

The Austrian corporate income tax rate will decrease from 25% to 24% as of 1 January 2023 and subsequently to 23% as of 1 January 2024. The domestic deferred tax assets/liabilities as of 31 December 2022 are recognized with the tax rate of the year in which the temporary differences are expected to reverse.

Provisions for employee benefits

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

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2022	2021
Interest rate EUR	3.90% p.a.	1.00% p.a.
Interest rate CHF	2.25% p.a.	0.26% p.a.
Wage growth	1.0%–2.95% p.a.	1.0%–2.0% p.a.
Fluctuation discount	0%–8.95% p.a.[1)]	0%–10.00% p.a.[1)]

Parameters for severance payments and anniversary bonuses

	2022	2021
Interest rate	3.90% p.a.	1.00% p.a.
Wage growth severance payments	3.95% p.a.	3.10% p.a.
Wage growth anniversary bonuses	2.00%–3.65% p.a.	2.00%–2.80% p.a.
Fluctuation discount severance payments	0%–0.34% p.a.	0%–0.34% p.a.
Fluctuation discount anniversary bonuses	0%–13.69% p.a.[1)]	0%–9.75% p.a.[1)]
Retirement age	59–65 years[2)]	59–65 years[2)]

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

The interest rate used in 2022 was changed from 1.00% in the previous year to 3.90%.

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

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

The post-employment benefit rights of the majority of employees are defined contribution plans. The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations. Payments to pension funds for defined contribution plans amounted to € 7 million in 2022 (2021: € 7 million).

Other provisions

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

Share-based payments

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

Equity-settled awards

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

That cost is recognized in employee benefits expense together with a corresponding increase in equity (other capital reserves) over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

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

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

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

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

Cash-settled awards

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

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

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

Modifications from equity-settled to cash-settled and vice versa

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

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

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

Contingent liabilities and unused lines of credit

For the most part, contingent liabilities are guarantees and unused lines of credit. Guarantees are used when subsidiaries of BAWAG Group guarantee payment to the creditor to fulfill the obligation of a third party. Unused lines of credit are commitments from which a credit risk may occur. Loan loss provisions for contingent liabilities and unused lines of credit are reported under provisions for anticipated losses on pending business. For details, see Note 44.

Equity

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

Revenue recognition

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

Description of P&L lines

Interest income and interest expense

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

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

Interest income and interest expense are recognized on an accrual basis

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

Fee and commission income and expense

This item consists mainly of income from and expenses for payment transfers, securities and custody business and lending. Income and expenses are recognized on an accrual basis. For details, see Note 4.

Gains and losses on financial assets and liabilities

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

Other operating income and expenses

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

Administrative expenses

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

Risk costs

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

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

Net gains or losses on financial instruments

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

Cash Flow Statement

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

Financial investments include debt instruments recognized at amortized cost or at fair value through other comprehensive income.

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

Effects of adopting amended and new standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2022 consolidated financial statements:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Impact on BAWAG Group
Amendments to ▸ IFRS 3 Business Combinations; ▸ IAS 16 Property, Plant and Equipment; ▸ IAS 37 Provisions, Contingent Liabilities and Contingent Assets ▸ Annual Improvements 2018–2020 (issued on 14 May 2020)	1 January 2022	28 June 2021	Immaterial

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 2022. BAWAG Group does not plan an early application of endorsed but not yet effective standards:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Expected impact on BAWAG Group
IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)	1 January 2023	19 November 2021	None
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	1 January 2023	2 March 2022	None
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (issued on 12 February 2021)	1 January 2023	2 March 2022	Immaterial
Amendments to IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (issued on 7 May 2021)	1 January 2023	11 August 2022	None
Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)	1 January 2023	8 September 2022	None

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

Standard/Interpretation/Amendment	Expected impact on BAWAG Group
Amendments to IAS 1 Presentation of Financial Statements: ▸ Classification of Liabilities as Current or Non-current (issued on 23 January 2020); ▸ Classification of Liabilities as Current or Non-current – Deferral of Effective Date (issued on 15 July 2020); ▸ Non-current Liabilities with Covenants (issued on 31 October 2022)	Immaterial
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022)	None

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Earnings per share

Earnings per share pursuant to IAS 33

	2022	2021
Net result attributable to owners of the parent (in € million)	318.3	479.9
AT1 coupon (in € million)	(24.0)	(24.5)
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	**294.3**	**455.4**
Weighted average number of outstanding shares	87,208,314	88,777,087
Basic earnings per share (in €)	**3.37**	**5.13**
Weighted average diluted number of outstanding shares	87,500,804	89,077,958
Diluted earnings per share (in €)	**3.36**	**5.11**

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

	2022	2021
Net result attributable to owners of the parent (in € million)	**318.3**	**479.9**
Weighted average diluted number of outstanding shares	87,500,804	89,077,958
After-tax earnings per share in (€) – BAWAG definition	**3.64**	**5.39**

Changes in number of outstanding shares

	2022	2021
Shares outstanding at the beginning of the period	88,855,047	87,937,130
Shares outstanding at the end of the period	82,147,160	88,855,047
Weighted average number of outstanding shares	87,208,314	88,777,087
Weighted average diluted number of outstanding shares	87,500,804	89,077,958

Earnings per share represent the net result attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the reporting period. As part of our long-term incentive program, shares will be awarded to employees after fulfillment of certain conditions. For these shares, a potential dilutive effect is calculated.

3 | Net interest income

in € million	2022	2021
Interest income	**1,309.4**	**1,128.0**
Financial assets at fair value through profit or loss	14.5	16.5
Financial assets at fair value through other comprehensive income	57.0	62.7
Financial assets held for trading	53.7	63.0
Financial assets at amortized cost	1,064.0	777.3
Derivatives – Hedge accounting, interest rate risk	75.2	126.5
Interest income from financial liabilities	43.1	80.7
Other assets	1.9	1.3
Interest expense	**(304.3)**	**(207.4)**
Deposits at central banks	(23.7)	(43.7)
Financial liabilities designated at fair value through profit or loss	(8.3)	(8.6)
Financial liabilities held for trading	(25.2)	(10.6)
Financial liabilities measured at amortized cost	(107.1)	(56.8)
Derivatives – Hedge accounting, interest rate risk	(128.5)	(72.7)
Provisions for social capital	(3.2)	(2.6)
Interest expense from IFRS 16 lease liabilities	(2.4)	(2.5)
Interest expense from financial assets	(5.9)	(9.9)
Dividend income	**16.0**	**17.7**
Financial assets mandatorily at fair value through profit or loss	0.7	2.5
Financial assets at fair value through other comprehensive income	15.3	15.2
Net interest income	**1,021.1**	**938.3**

Interest income on impaired receivables during 2022 amounted to € 4.1 million (2021: € 3.7 million). Interest income includes income from negative interest of € 43.1 million (2021: € 80.7 million). Interest expense includes expenses from negative interest of € 29.6 million (2021: € 53.6 million). Interest income from financial assets at fair value through other comprehensive income and financial assets at amortized cost is calculated using the effective interest method. Dividend income from financial assets at fair value through other comprehensive income is related to investments held at the end of the reporting period.

4 | Net fee and commission income

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

2022 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**351.5**	**37.2**	**0.1**	**0.2**	**389.0**
Transactional	187.4	37.2	-	-	224.6
Advisory	107.2	-	-	1.4	108.6
Securities	95.7	-	-	1.4	97.1
Insurance	11.5	-	-	-	11.5
Lending and others	56.9	-	0.1	(1.2)	55.8
Lending	32.7	-	-	-	32.7
Factoring	18.1	-	-	-	18.1
Others	6.1	-	0.1	(1.2)	5.0
Fee and commission expense	**(74.7)**	**(3.5)**	**(0.8)**	**(0.7)**	**(79.7)**
Transactional	(57.5)	(3.5)	-	-	(61.0)
Advisory	(13.0)	-	-	(0.1)	(13.1)
Securities	(13.0)	-	-	(0.1)	(13.1)
Insurance	-	-	-	-	-
Lending and others	(4.2)	-	(0.8)	(0.6)	(5.6)
Lending	(0.9)	-	-	-	(0.9)
Factoring	(2.3)	-	-	-	(2.3)
Others	(1.0)	-	(0.8)	(0.6)	(2.4)
Net fee and commission income	**276.8**	**33.7**	**(0.7)**	**(0.5)**	**309.3**

2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**313.0**	**39.6**	**0.1**	**0.3**	**353.0**
Transactional	180.4	39.6	-	-	220.0
Advisory	74.0	-	-	1.4	75.4
Securities	63.8	-	-	1.4	65.2
Insurance	10.2	-	-	-	10.2
Lending and others	58.6	-	0.1	(1.1)	57.6
Lending	33.6	-	-	-	33.6
Factoring	17.4	-	-	-	17.4
Others	7.6	-	0.1	(1.1)	6.6
Fee and commission expense	**(61.9)**	**(5.6)**	**-**	**(3.4)**	**(70.9)**
Transactional	(51.3)	(5.6)	-	-	(56.9)
Advisory	(2.0)	-	-	(2.8)	(4.8)
Securities	(2.0)	-	-	(2.8)	(4.8)
Insurance	-	-	-	-	-
Lending and others	(8.6)	-	-	(0.6)	(9.2)
Lending	(5.1)	-	-	-	(5.1)
Factoring	(2.3)	-	-	-	(2.3)
Others	(1.2)	-	-	(0.6)	(1.8)
Net fee and commission income	**251.1**	**34.0**	**0.1**	**(3.1)**	**282.1**

Net fee and commission income includes an amount of € 2.6 million (2021: € 2.5 million) for fiduciary transactions. Income from payment transfers and securities and custody business is recognized mainly at a point in time. Income from lending is recognized mainly over time. Other income is recognized using a mix of point in time and over time.

5 | Gains and losses on financial assets and liabilities

in € million	2022	2021
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**(91.1)**	**21.1**
Financial assets at fair value through other comprehensive income	(18.8)	39.5
Financial assets measured at amortized cost	(9.1)	(11.5)
thereof gains from the derecognition of financial assets measured at amortized cost	–	0.1
thereof losses from the derecognition of financial assets measured at amortized cost	(9.0)	–
Financial liabilities measured at amortized cost	(0.1)	(1.6)
Gain or loss from modification	(59.4)	(5.3)
Gains (losses) on financial assets and liabilities held for trading, net	**52.4**	**(45.1)**
Gains (losses) on financial assets and liabilities measured at fair value through profit or loss, net	**16.5**	**54.3**
Gains (losses) from fair value hedge accounting	**(11.5)**	**(20.4)**
Fair value adjustment of hedged item	1,326.7	54.8
Fair value adjustment of hedging instrument	(1,338.2)	(75.2)
Exchange differences, net	**20.5**	**1.4**
Gains and losses on financial assets and liabilities	**(13.2)**	**11.3**

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

In 2022, the line item Gain or loss from modification includes a negative impact from valuation losses for the TLTRO following the change of terms.

6 | Other operating income and expenses

in € million	2022	2021
Other operating income	**87.7**	**198.3**
Income from investment properties	7.2	11.1
Consolidation result from business combinations	–	116.0
Lease objects maintenance costs charged to the lessees	40.7	45.6
Settlement City of Linz	12.0	–
Other income	27.8	25.6
Other operating expenses	**(125.5)**	**(248.2)**
Expenses relating to investment properties	(10.9)	(9.3)
Restructuring and other expenses relating to the acquisition of DEPFA Group	–	(30.2)
Losses from the sale and derecognition of property, plant and equipment	(4.7)	(28.0)
Regulatory charges	(44.6)	(76.1)
Lease objects maintenance costs	(41.3)	(45.8)
Other expenses	(24.0)	(58.8)
Other operating income and expenses	**(37.8)**	**(49.9)**

Income from investment properties includes rental income of € 7.2 million (2021: € 11.1 million).

Expenses relating to investment properties include operating costs of € 5.4 million and negative valuation results of net minus € 5.5 million (2021: operating costs of € 5.7 million and negative valuation results of net minus € 3.3 million).

The line item Regulatory charges includes the bank levy and the contributions to the deposit guarantee scheme and to the bank resolution fund. The bank levy included in this item amounts to € 7.9 million for 2022 (2021: € 7.0 million).

7 | Administrative expenses

in € million	2022	2021
Staff costs	**(286.9)**	**(295.4)**
Wages and salaries	(220.2)	(218.7)
Statutory social security contributions	(55.3)	(60.6)
Increase/Release of pension provision and pension payments	(11.0)	(10.3)
Increase/Decrease of provision for severance payments	(3.5)	(4.2)
Increase/Decrease of provision for jubilee benefits	5.3	0.9
Staff benefit fund costs	(2.2)	(2.5)
Other administrative expenses	**(129.3)**	**(126.2)**
IT, data, communication	(70.8)	(59.0)
Real estate, utility, maintenance expenses	(10.1)	(9.4)
Advertising	(8.9)	(5.5)
Legal, consulting, outsourcing	(10.6)	(6.8)
Postage fees and logistics	(13.1)	(14.6)
Regulatory and audit fees	(11.5)	(10.4)
Other general expenses	(4.3)	(20.5)
Administrative expenses	**(416.2)**	**(421.6)**

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

in € million	2022	2021
Depreciation and amortization		
Customer relationships	(9.5)	(9.0)
Software and other intangible assets	(30.8)	(32.4)
Property, plant and equipment	(22.5)	(27.1)
thereof depreciation of right of use assets	(11.6)	(15.1)
Depreciation and amortization	**(62.8)**	**(68.5)**

9 | Risk costs

in € million	2022	2021
Changes in provisions for financial assets at amortized cost	(111.8)	(80.8)
Stage 1	(8.9)	19.4
Stage 2	(31.2)	(40.0)
Stage 3	(84.8)	(60.2)
POCI loans	13.1	–
Changes in provisions for off-balance credit risk	1.5	6.8
Stage 1	(0.7)	6.5
Stage 2	0.5	1.7
Stage 3	1.7	(1.4)
Change in provisions for financial assets at fair value through other comprehensive income	(0.3)	4.4
Stage 1	0.6	4.4
Stage 2	(0.9)	–
Subtotal – risk costs according to IFRS 9	**(110.6)**	**(69.6)**
Provisions and expenses for operational risk[1)]	(257.3)	(17.7)
Impairment losses on non-financial assets	–	(6.0)
CDS premia	(8.4)	(1.7)
Provisions – other	–	0.0
Risk costs	**(376.3)**	**(95.0)**

1) 2022: includes the full write-off of € 254.3 million related to the City of Linz receivable.

Impairment losses on non-financial assets

in € million	2022	2021
Software and other intangible assets	–	(6.0)
thereof Brand name	–	–
thereof Software and other intangible assets	–	(6.0)
Impairment and appreciation of non-current assets	**–**	**(6.0)**

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

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

The result reported for 2022 of € 2.7 million (2021: € 3.8 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH of in total € 3.5 million (2021: € 3.8 million) and impairment of entities accounted for using the equity method of € 0.8 million (2021: € 0.0 million).

Currently, there are no unrecognized shares of the losses of entities that were accounted for using the equity method according to IFRS 12.22 (c).

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

Associates accounted for using the equity method

in € million	2022	2021
Cumulated assets	2,085	2,212
Cumulated liabilities	2,013	2,079
Cumulated equity	72	133
Earned premiums (gross)	214	196
Fee and commission income	285	216
Cumulated net profit	20	14

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.

11 | Income taxes

in € million	2022	2021
Current tax expense	(90.3)	(150.0)
Deferred tax expense/income	(17.9)	29.6
Income taxes	**(108.2)**	**(120.4)**

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

in € million	2022	2021
Profit before tax	426.8	600.4
Tax rate	25%	25%
Computed tax expenses	**(106.7)**	**(150.1)**
Reductions in tax		
Due to tax-exempt income from equity investments	4.3	5.5
Due to tax goodwill amortization	–	18.9
Due to first time consolidation / deconsolidation	3.5	22.3
Due to other tax-exempt income	6.0	6.1
Due to foreign exchange differences	0.1	–
Due to tax rate changes	5.9	–
Due to use of tax loss carryforwards	–	1.2
Due to other tax effects	2.9	2.1
Increases in tax		
Due to gains and losses from the valuation of equity investments	(5.3)	(2.8)
Due to valuation of real estate properties	(0.3)	(0.0)
Due to unrecognized deferred taxes on tax loss carryforwards	(0.3)	(0.9)
Due to non-tax-deductible expenses	(16.7)	(10.9)
Due to foreign exchange differences	–	(2.0)
Due to differing foreign tax rates	(0.8)	(3.6)
Due to other tax effects	(1.0)	(3.0)
Income tax in the period	**(108.5)**	**(117.3)**
Out-of-period income tax	0.3	(3.1)
Reported income tax (expense)	**(108.2)**	**(120.4)**

The Group's assets included deferred tax assets recognized for benefits arising from as-yet-unused tax losses in the amount of € 1 million (2021: € 1 million). The tax losses can be carried forward for an unlimited period.

As of 31 December 2022, unused tax losses amounted to € 0 million (2021: € 0 million) at the level of BAWAG Group AG, € 7 million (2021: € 9 million) at the level of members of the tax group included in the consolidated financial statements and € 2 million (2021: € 0 million) at the level of other companies included in the consolidated financial statements, hence a total of € 9 million (2021: € 9 million). Tax goodwill amortization contributed another € 76 million per year as tax-deductible expenses until the end of 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

12 | Cash reserves

in € million	31.12.2022	31.12.2021
Cash on hand	138	110
Balances at central banks	382	1,784
Cash reserves	**520**	**1,894**

13 | Financial assets at fair value through profit or loss

in € million	31.12.2022	31.12.2021
Financial assets designated at fair value through profit or loss	**58**	**77**
Receivables from customers	58	77
Financial assets mandatorily at fair value through profit or loss	**499**	**534**
Bonds and other securities	307	328
Receivables from customers	78	108
Subsidiaries and other equity investments	113	98
Financial assets at fair value through profit or loss	**557**	**611**

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

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

14 | Financial assets at fair value through other comprehensive income

in € million	31.12.2022	31.12.2021
Debt instruments	**2,578**	**3,395**
Bonds and other fixed-income securities	2,578	3,395
Bonds of other issuers	2,494	3,327
Public sector debt instruments	83	68
Subsidiaries and other equity investments	**165**	**359**
AT1 capital	16	20
Investments in non-consolidated subsidiaries	10	17
Interests in associates	0	0
Other shareholdings	139	322
Financial assets at fair value through other comprehensive income	**2,743**	**3,754**

In 2022, 12-month ECL Stage 1 for financial assets at fair value through other comprehensive income was booked in the amount of € 0.4 million (2021: € 4.4 million reversed).

The item AT1 capital comprises investments in AT1 issues by credit institutions.

Other investments mainly include investments in financial institutions and relate to listed shares in the amount of € 0 million and unlisted shares in the amount of € 139 million (2021: listed shares in the amount of € 193 million and unlisted shares in the amount of € 129 million).

In 2022, fair value valuations of non-consolidated participations at fair value through other comprehensive income amounted to plus € 7.3 million (2021: plus € 84.8 million) of which minus € 3.1 million relate to listed shares and plus € 10.4 million relate to non-listed shares (2021: plus € 44.4 million related to listed shares and plus € 40.4 million related to non-listed shares). Dividends received from equity investments recognized at fair value through other comprehensive income amounted to € 15.3 million (2021: € 15.2 million).

15 | Financial assets held for trading

in € million	31.12.2022	31.12.2021
Derivatives in banking book	**156**	**257**
Foreign currency derivatives	66	39
Interest rate derivatives	90	218
Financial assets held for trading	**156**	**257**

16 | Financial assets measured at amortized cost

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

31.12.2022 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	36,191	(37)	(131)	(260)	35,763
Securities	3,169	(2)	–	–	3,167
Public sector debt instruments	141	0	–	–	141
Debt instruments of other issuers	3,028	(1)	–	–	3,027
Receivables from credit institutions	12,655	0	0	–	12,655
Total	**52,015**	**(39)**	**(131)**	**(260)**	**51,585**

31.12.2021 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	35,361	(29)	(100)	(269)	34,963
Securities	2,320	(1)	–	–	2,319
Public sector debt instruments	123	0	–	–	123
Debt instruments of other issuers	2,197	(1)	–	–	2,196
Receivables from credit institutions	11,166	0	0	–	11,166
Total	**48,847**	**(30)**	**(100)**	**(269)**	**48,448**

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

in € million	**31.12.2022**	31.12.2021
Loans	32,401	31,444
Current accounts	1,036	1,230
Finance leases	1,574	1,636
Cash advances	341	150
Money market	411	503
Receivables from customers	**35,763**	**34,963**

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

31.12.2022 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased / originated credit-impaired
Amortized cost before modification in the current reporting period	168	8	–
Net gain or loss from modification	0	–	–

31.12.2021 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased / originated credit-impaired
Amortized cost before modification in the current reporting period	262	7	–
Net gain or loss from modification	0	–	–

Modified financial assets whose risk provision was allocated to stage 2 or stage 3 at the time of modification and that have been reallocated to stage 1 during the reporting period had a gross book value as of 31 December 2022 of € 394 million (2021: € 140 million).

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

31.12.2022 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	22,312	(25)	(72)	(204)	22,011
Corporates, Real Estate & Public Sector	14,116	(13)	(59)	(56)	13,988
Treasury	15,392	(1)	0	–	15,391
Corporate Center	195	0	0	0	195
Total	**52,015**	**(39)**	**(131)**	**(260)**	**51,585**

31.12.2021 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	20,974	(21)	(52)	(229)	20,672
Corporates, Real Estate & Public Sector	14,443	(9)	(47)	(39)	14,348
Treasury	13,029	0	0	–	13,029
Corporate Center	401	0	–	(2)	399
Total	**48,847**	**(30)**	**(100)**	**(269)**	**48,448**

17 | Asset maturities

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

Financial assets – breakdown by remaining period to maturity 2022

31.12.2022 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	–	1	9	48	58
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	0	1	17	60	78
Bonds and other securities	1	0	190	93	23	307
Financial assets at fair value through other comprehensive income						
Bonds and other fixed-income securities	–	56	157	1,594	771	2,578
At amortized cost						
Receivables from customers	1,314	899	1,355	10,706	21,489	35,763
Receivables from credit institutions	698	11,868	4	8	77	12,655
Bonds and other fixed-income securities	0	15	141	870	2,141	3,167
Total	**2,013**	**12,838**	**1,849**	**13,297**	**24,609**	**54,606**

Financial assets – breakdown by remaining period to maturity 2021

31.12.2021 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	3	7	30	37	77
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	3	14	46	45	108
Bonds and other securities	2	0	220	82	24	328
Financial assets at fair value through other comprehensive income						
Bonds and other fixed-income securities	–	129	93	1,942	1,231	3,395
At amortized cost						
Receivables from customers[1)]	1,409	1,317	1,130	10,380	20,727	34,963
Receivables from credit institutions	479	10,585	2	13	87	11,166
Bonds and other fixed-income securities	0	20	74	833	1,392	2,319
Total	**1,890**	**12,057**	**1,540**	**13,326**	**23,543**	**52,356**

1) Adjusted due to incorrect allocation.

18 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment 2022

in € million	Carrying amount 31.12.2021	Acquisition cost 01.01.2022	Change in scope of consolida-tion Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Realloca-tions	Write-downs cumulative	**Carrying amount 31.12.2022**	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equip-ment	**290**	**502**	**–**	**0**	**22**	**(56)**	**–**	**(200)**	**268**	**(34)**
Land and buildings used by the enterprise for its own operations	19	47	–	0	0	(20)	–	(12)	15	(1)
Office furniture and equipment	82	200	–	0	7	(27)	0	(105)	75	(10)
Plant under construc-tion	1	–	–	–	1	0	0	0	1	–
Right of use assets IFRS 16	188	255	–	0	14	(9)	0	(83)	177	(23)

Changes in property, plant and equipment 2021

in € million	Carrying amount 31.12.2020	Acquisition cost 01.01.2021	Change in scope of consolida-tion Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Realloca-tions	Write-downs cumulative	Carrying amount 31.12.2021	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equip-ment	**332**	**519**	**5**	**0**	**23**	**(45)**	**–**	**(212)**	**290**	**(40)**
Land and buildings used by the enterprise for its own operations	20	48	–	0	0	(1)	–	(28)	19	(1)
Office furniture and equipment	90	203	3	0	7	(14)	1	(118)	82	(12)
Plant under construc-tion	1	1	–	–	0	–	(1)	1	1	–
Right of use assets IFRS 16	221	267	2	0	16	(30)	–	(67)	188	(27)

Changes in investment properties as of 31.12.2022

in € million	Carrying amount 31.12.2021	Change in scope of consolidation	Change in foreign exchange differences	Changes in fair value valuation in accordance with IAS 40	Additions	Disposals	Reallocations	Reclassification to/from non-current assets held for sale	Carrying amount 31.12.2022
Investment properties	**104**	**–**	**(4)**	**(5)**	**17**	**(8)**	**–**	**(20)**	**84**

Changes in investment properties as of 31.12.2021

in € million	Carrying amount 31.12.2020	Change in scope of consolidation	Change in foreign exchange differences	Changes in fair value valuation in accordance with IAS 40	Additions	Disposals	Reallocations	Reclassification to/from non-current assets held for sale	Carrying amount 31.12.2021
Investment properties	**143**	**(56)**	**8**	**0**	**–**	**–**	**–**	**9**	**104**

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

The brand name “BAWAG P.S.K.” with a book value of € 114 million (2021: € 114 million), customer relationships of Group companies with a total book value of € 117 million (2021: € 129 million) and software and other intangible assets with a total book value of € 182 million (2021: € 185 million) are the Bank’s most important intangible non-current assets. The book value of the customer relationships is amortized on a straight-line pro rata temporis basis.

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

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

Changes in Goodwill, Brand names and customer relationships, Software and other intangible assets 2022

in € million	Carrying amount 31.12.2021	Acquisition cost 01.01.2022	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	**Carrying amount 31.12.2022**	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**96**	**661**	**1**	**–**	**–**	**–**	**(564)**	**98**	**–**
Brand names and customer relationships	**254**	**489**	**0**	**–**	**(3)**	**–**	**(244)**	**242**	**(9)**
Software and other intangible assets	**185**	**601**	**0**	**32**	**(12)**	**–**	**(439)**	**182**	**(31)**
Software and other intangible non-current assets	179	585	0	27	(11)	5	(430)	176	(31)
Thereof purchased	93	451	0	6	(9)	2	(367)	83	(15)
Thereof internally generated	86	134	–	21	**(2)**	3	(63)	93	(16)
Intangible non-current assets in development	6	6	–	5	0	(5)	–	6	–
Thereof purchased	2	2	–	2	0	(2)	–	2	–
Thereof internally generated	4	4	–	3	0	(3)	–	4	–
Rights and compensation payments	–	10	–	–	(1)	–	(9)	–	–

Changes in Goodwill, Software and other intangible assets 2021

in € million	Carrying amount 31.12.2020	Acquisition cost 01.01.2021	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2021	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**94**	**659**	**2**	**–**	**–**	**(565)**	**96**	**–**
Brand names and customer relationships	**255**	**475**	**14**	**–**	**–**	**(235)**	**254**	**(15)**
Software and other intangible assets	**203**	**617**	**37**	**(49)**	**–**	**(420)**	**185**	**(32)**
Software and other intangible non-current assets	198	597	32	(47)	4	(407)	179	(32)
Thereof purchased	119	492	7	(33)	1	(374)	93	(18)
Thereof internally generated	79	105	25	(14)	3	(33)	86	(14)
Intangible non-current assets in development	5	5	5	0	(4)	–	6	–
Thereof purchased	1	1	2	–	(1)	–	2	–
Thereof internally generated	4	4	3	–	(3)	–	4	–
Rights and compensation payments	–	15	–	(2)	–	(13)	–	–

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

Intangible assets	Book value as of 31.12.2022 in € million	Remaining useful life	Book value as of 31.12.2021 in € million
Total goodwill	**98**		**96**
thereof: goodwill easybank franchise	59	Indefinite	59
thereof: goodwill brokerage business	1	Indefinite	1
thereof: goodwill Zahnärztekasse	23	Indefinite	21
thereof: goodwill Health Coevo	15	Indefinite	15
Total brand names	**125**		**124**
thereof: brand name BAWAG P.S.K.	114	Indefinite	114
thereof: brand name Südwestbank franchise	1	Indefinite	1
thereof: brand name Zahnärztekasse AG	7	Indefinite	6
thereof: brand name Health Coevo AG	2	Indefinite	2
Total customer relationships	**117**		**129**
thereof: customer relationships BAWAG P.S.K.	86	8–17 years	94
thereof: customer relationships Südwestbank franchise	1	15 years	4
thereof: customer relationships brokerage business	13	9–15 years	13
thereof: customer relationships start:bausparkasse	4	14 years	4
thereof: customer relationships Paylife	4	3 years	5
thereof: customer relationships IMMO-BANK	2	14 years	2
thereof: customer relationships Zahnärztekasse AG	4	5 years	4
thereof: customer relationships Health Coevo	1	4 years	1
thereof: customer relationships BFL GmbH	2	6 years	2
Total other intangibles	**182**		**185**
thereof: core banking system for Austrian operations (Allegro)	38	18 years	40

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

If the carrying amount of the brand name is higher than the recoverable amount, an impairment loss will be recognized. The recoverable amount is calculated using a modified relief from royalty method. BAWAG Group uses the brand's fair value less cost of disposal as its recoverable amount, utilizing Level 2 and Level 3 input parameters. Major parameters are brand-specific core income and the brand's royalty rate. 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 (depending on the business model 0.5% to 1.0%) thereafter (2021: 0.5% to 1.0%). The after-tax discount rate was set at 6.93% for Zahnärztekasse AG and 10.23% for other entities (2021: 6.73% for Zahnärztekasse AG and 9.29% for other entities). Additionally, asset-specific premiums between 1% and 2% are added to the discount rate (2021: between 1% and 2%).

As of 31 December 2022, the individual impairment tests for the brand names resulted in no impairment requirement (2021: no impairment requirement).

Customer relationships were reviewed for impairment in the event that there was objective evidence of an impairment trigger (such as customer development differing from the initial plans). The fair value or value in use was calculated for all customer relationships taking into account current experience on customer retention, current cash flow forecasts and discount rates. Fair value was calculated using either the value in use or fair value less cost of disposal valuations, using the multi-period excess earnings method, utilizing Level 2 and Level 3 input parameters. Major input parameters used in customer relationships valuation were customer-specific income, churn rate and asset charge. Fair value less costs of disposal represents the recoverable amount from the sale in an arm's length transaction. The value in use is determined by discounting the cash flows at a rate that contains present market rates and the specific risks of the entity.

The planning projections take into account impacts due to COVID-19 and the Russia-Ukraine conflict. In 2022, part of the Südwestbank franchise customer relationships with a carrying amount of € 2.7 million was derecognized in full due to the impairment tests performed. In 2021, impairment losses of € 3.6 million were recognized for the customer relationships of start:bausparkasse Austria, € 0.1 million for IMMO-BANK and € 2.3 million for Südwestbank. The pre-tax discount rates used for the impairment test of Südwestbank was 23.79% (19.33% in prior year). All customer relationships are part of the Corporate Center segment. The planning periods of both start:bausparkasse Austria and IMMO-Bank last until 2056; the planning period of Südwestbank until 2037. The original valuation was performed by an external advisor; the impairment test was carried out internally.

Impairment testing for cash-generating units with goodwill

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

in € million	**31.12.2022**	31.12.2021
easybank franchise	59	59
Zahnärztekasse AG	23	21
Health Coevo AG	15	15
Brokerage business	1	1
Goodwill	**98**	**96**

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

The forecast is subject to greater uncertainty due to COVID-19 and the Russia-Ukraine conflict , which has been reflected in the current cash flow projections. These projections take into account the most recent forecasts including the observed and expected impact of the COVID-19 pandemic and the Russia-Ukraine conflict on the relevant CGU's profitability. The planning assumptions for the period 2023–2027 are based on the ECB's economic assumptions and adequate estimates for risk costs. The planning input is based on the business strategy, which envisages organic growth in the core market and continuous improvement of our product range.

in %	2022	2021
Pre-tax discount rate easybank franchise	13.0%	12.2%
Pre-tax discount rate Zahnärztekasse AG	11.6%	11.2%
Pre-tax discount rate Health Coevo AG	13.9%	12.5%
Pre-tax discount rate brokerage business	12.9%	11.8%
Planned profit growth rate (average for the next five years) easybank franchise	5.7%	(6.7)%
Planned profit growth rate (average for the next five years) Zahnärztekasse AG	1.8%	3.4%
Planned profit growth rate (average for the next five years) Health Coevo AG	19.2%	8.6%
Planned profit growth rate (average for the next five years) brokerage business	12.7%	25.9%
Sustainable growth rate easybank franchise	0.5%	0.5%
Sustainable growth rate Zahnärztekasse AG	0.5%	0.5%
Sustainable growth rate Health Coevo AG	1.0%	1.0%
Sustainable growth rate brokerage business	0.5%	0.5%

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

Sensitivity analysis as of 31.12.2022

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 2023 could occur without the fair value of the cash-generating unit falling below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	Change in growth after 2023 (in %)
easybank franchise	12.79	(10.13)%
Zahnärztekasse AG	0.89	(2.49)%
Health Coevo AG	10.25	(17.89)%
Brokerage business	>20	<-20%
PSA Payment Services Austria GmbH	0.00	0.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft	>20	<-20%

in € million	Discount rate increase by 1%	Decrease of net profit by 10% in the period 2023–2025
Fully consolidated		
easybank franchise	no impairment	no impairment
Zahnärztekasse AG	(0.7)	no impairment
Health Coevo AG	no impairment	no impairment
Brokerage business	no impairment	no impairment
Equity method		
BAWAG P.S.K. Versicherung Aktiengesellschaft	no impairment	no impairment
PSA Payment Services Austria GmbH	(0.4)	(1.5)

Sensitivity analysis as of 31.12.2021

	Change in discount rate (in percentage pts)	Change in growth after 2022 (in %)
easybank franchise	5.14	(3.63)%
Zahnärztekasse AG	0.79	(2.22)%
Health Coevo AG	11.84	(21.54)%
Brokerage business	5.80	(4.83)%
PSA Payment Services Austria GmbH	0.87	(0.68)%
BAWAG P.S.K. Versicherung Aktiengesellschaft	1.53	(1.17)%

in € million	Discount rate increase by 1%	Decrease of net profit by 10% in the period 2022–2024
Fully consolidated		
easybank franchise	no impairment	no impairment
Zahnärztekasse AG	(1.6)	no impairment
Health Coevo AG	no impairment	no impairment
Brokerage business	no impairment	no impairment
Equity method		
BAWAG P.S.K. Versicherung Aktiengesellschaft	(0.6)	no impairment
PSA Payment Services Austria GmbH	no impairment	no impairment

Sensitivity analysis as of 31.12.2022 for brand name BAWAG P.S.K.

A sensitivity analysis was used to test the robustness of the impairment test for the brand name BAWAG P.S.K., 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 2023 could occur without the value-in-use of the brand name falling below the carrying value.

	Change in discount rate (in percentage pts)	Change in growth after 2023 (in %)
Brand name BAWAG P.S.K.	>20	<-20%

in € million	Discount rate increase by 1%	Decrease of net profit by 10% in the period 2023–2025
Brand name BAWAG P.S.K.	no impairment	no impairment

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

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

in € million	31.12.2022	31.12.2021
Financial liabilities designated at fair value through profit or loss	60	25
Financial liabilities at amortized cost	109	104
Financial assets at fair value through other comprehensive income	58	–
Provisions	35	67
Liabilities held for trading	201	–
Hedging derivatives	11	–
Tax loss carryforwards	1	1
Deferred tax assets	**475**	**197**
Financial assets at fair value through profit or loss	12	25
Financial assets at fair value through other comprehensive income	–	18
Financial assets at amortized cost	466	36
Assets held for trading	–	16
Hedging derivatives	–	104
Internally generated intangible assets	20	18
Other intangible assets	54	63
Deferred tax liabilities	**552**	**280**
Net deferred tax assets/liabilities	**(77)**	**(83)**
Deferred tax assets reported on the balance sheet1)	**18**	**10**
Deferred tax liabilities reported on the balance sheet	**95**	**93**

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

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

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to € 612 million (2021: € 818 million). IAS 12.39 stipulates that in the case of temporary differences associated with investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will be reversed in the foreseeable future.

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

As of 31 December 2022, deferred tax assets on tax loss carryforwards of BAWAG Group amount to € 1 million (31 December 2021: € 1 million). The risk that COVID-19 and the Russia-Ukraine conflict will have an impact on the recoverability of tax loss carryforwards that have not yet been utilized is therefore considered to be low. As can be seen in the table above, the Statement of Financial Position shows a net deferred tax liability of € 77 million (31 December 2021: € 83 million). There is therefore no increased risk that deferred tax assets cannot be used for future taxable profits.

21 | Other assets

in € million	31.12.2022	31.12.2021
Accruals	27	34
Contract assets	12	9
Other items	241	233
Other assets	**280**	**276**

The other items include accounts relating to payment and miscellaneous other assets. As of 31 December 2022, other assets in the amount of € 17 million (31 December 2021: € 36 million) have a maturity of more than one year.

22 | IFRS 5 Non-current assets held for sale

In the second half-year 2022, BAWAG Group decided to sell investment properties in Ireland and Austria. After relevant resolutions were passed, brokers were appointed for the sales processes, which are expected to be completed within a year. Since the criteria according to IFRS 5 are met, the relevant real estate properties are classified as non-current assets held for sale. At the time of the reclassification, the non-current assets held for sale were carried at a book value of € 25 million. The non-current assets held for sale are reported in the segment Corporate Center.

According to IFRS 5.15, an entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. No impairment loss was identified due to the reclassification.

As of 31 December 2021, there were no non-current assets held for sale.

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

in € million	31.12.2022	31.12.2021
Issued bonds, subordinated and supplementary capital	**199**	**222**
Issued debt securities and other securitized liabilities	68	73
Subordinated capital	90	103
Short-term notes and non-listed private placements	41	46
Deposits from customers	**5**	**12**
Financial liabilities designated at fair value through profit or loss	**204**	**234**

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

The carrying amount of the securities issued by BAWAG Group and recognized at their fair value as of 31 December 2022 was € 5 million below their repayment amount (2021: € 17 million above the repayment amount).

24 | Financial liabilities held for trading

in € million	31.12.2022	31.12.2021
Derivatives banking book	**692**	**301**
Foreign currency derivatives	50	122
Interest rate derivatives	639	171
Credit derivatives	3	8
Financial liabilities held for trading	**692**	**301**

25 | Financial liabilities measured at amortized cost

in € million	31.12.2022	31.12.2021
Deposits from credit institutions	**6,344**	**7,361**
Deposits from customers	**34,288**	**35,148**
Savings deposits – fixed interest rates	546	572
Savings deposits – variable interest rates	4,814	5,453
Deposit accounts	6,488	6,794
Current accounts – Retail	14,717	14,920
Current accounts – Corporates	2,968	4,638
Other deposits[1)]	4,755	2,771
Issued bonds, subordinated and supplementary capital	**10,037**	**7,157**
Issued debt securities	8,678	6,280
Subordinated capital	43	45
Supplementary capital	602	642
Other obligations evidenced by paper	714	190
Financial liabilities at amortized cost	**50,669**	**49,666**

1) Primarily term deposits.

The issued bonds are mainly listed securities.

As of 31 December 2022, BAWAG Group utilized € 5.4 billion of funding under the ECB's TLTRO III facility (31 December 2021: € 6.4 billion). BAWAG Group has decided to participate in the TLTRO III facility despite its already strong liquidity position as an economically attractive measure to pre-position liquidity and to support lending to the real economy.

The negative interest expense from the TLTRO III program amounting to € 30.7 million (2021: € 63.4 million) is reported under interest income.

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

For banks that achieved sufficient lending volumes between 1 March 2020 and 31 March 2021, the interest rate applied on all TLTRO III operations outstanding over the period between 24 June 2020 and 23 June 2021 is 50 basis points below the average interest rate on the ECB's deposit facility prevailing over the same period, and in any case not higher than -1%. BAWAG Group met the required lending criteria to receive the interest rate of -1%.

In December 2020, the ECB decided to extend the special interest rate terms for the period between 24 June 2021 and 23 June 2022 for banks that achieve sufficient lending volumes in the additional reference period between 1 October 2020 and 31 December 2021. BAWAG Group also met the required lending benchmark in the additional reference period.

In October 2022, the ECB modified the terms and conditions for calculating the TLTRO III interest rates for the period between 24 June 2022 and 22 November 2022, the TLTRO III interest rate was the average interest rate on the ECB's deposit facility over the period between the beginning of the respective TLTRO III operation and 22 November 2022. For the period between 23 November 2022 and the respective maturity, the TLTRO III interest is being accrued on a daily basis using the ECB's deposit facility rate effective for that day.

The ECB also allowed for three additional early repayment options and therefore for termination or reduction of these refinancing operations before final maturity. This change of terms and conditions was recognized as a modification by BAWAG Group, which did not result in a derecognition.

The outstanding TLTRO facility is recognized at amortized cost using the effective interest rate method under deposits from credit institutions. BAWAG Group uses the specific applicable interest rate expected for the respective individual interest period of TLTRO III.

Based on an analysis of the conditions observable for BAWAG Group on the market for comparable secured refinancing, the Bank has come to the conclusion that the conditions of the TLTRO III program do not offer any significant advantage compared to the market. The liabilities were therefore recognized as a financial instrument in accordance with IFRS 9.

An amount of € 1 billion was repaid early in 2022, followed by € 2 billion in January 2023.

26 | Issued bonds, subordinated and supplementary capital

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

	Recognized at fair value		Recognized at amortized cost		Total	
in € million	**2022**	2021	**2022**	2021	**2022**	2021
Issued bonds (own issues)	68	73	8,678	6,280	8,746	6,353
Subordinated capital	90	103	43	45	133	148
Supplementary capital	–	–	602	642	602	642
Short-term notes and unlisted private placements	41	46	714	190	755	236
Total	**199**	**222**	**10,037**	**7,157**	**10,236**	**7,379**

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

ISIN	Type	Currency	Nominal value in EUR million	Type of interest payment	Coupon	Maturity date
XS2523326853	Covered	EUR	1,250	Fixed	2.000%	25.08.2032
XS2234573710	Covered	EUR	750	Fixed	0.010%	23.09.2030
XS2468221747	Covered	EUR	750	Fixed	1.125%	31.07.2028
XS2487770104	Covered	EUR	750	Fixed	1.750%	08.03.2030
XS2556232143	Covered	EUR	750	Fixed	3.000%	17.05.2027
XS1551294926	Covered	EUR	500	Fixed	0.750%	18.01.2027
XS2013520023	Covered	EUR	500	Fixed	0.625%	19.06.2034
XS2049584084	Senior unsecured	EUR	500	Fixed	0.375%	03.09.2027
XS2058855441	Covered	EUR	500	Fixed	0.010%	02.10.2029
XS2259776230	Covered	EUR	500	Fixed	0.010%	19.11.2035
XS2106563161	Covered	EUR	500	Fixed	0.010%	21.01.2028
XS2320539765	Covered	EUR	500	Fixed	0.375%	25.03.2041
XS2340854848	Covered	EUR	500	Fixed	0.100%	12.05.2031
XS2380748439	Covered	EUR	500	Fixed	0.010%	03.09.2029
XS2429205540	Covered	EUR	500	Fixed	0.250%	12.01.2032
AT0000A2Z7V4	Covered	EUR	500	Fixed	1.900%	27.07.2027
XS1968814332	Tier II	EUR	400	Fixed	Fixed coupon until reset date (26 March 2024) of 2.375%, from including 26 March 2024 to final maturity (26 March 2029), the annual coupon will be a fixed coupon corresponding to 5y swap rate + 230bp, with the 5y swap rate being fixed two payment days before the reset date	26.03.2029
XS0987169637	Tier II	EUR	300[1)]	Fixed	8.125%	30.10.2023
AT0000A2Z7W2	Covered	EUR	250[2)]	Fixed	1.900%	28.06.2027

XS2230264603	Tier II	EUR	200	Fixed	Fixed coupon until reset date (23 September 2025) of 1.875%, from including 23 September 2025 to final maturity (23 September 2030), the annual coupon will be a fixed coupon corresponding to 5y swap rate + 235bp, with the 5y swap rate being fixed two payment days before the reset date	23.09.2030

1) Thereof € 268 million bought back.
2) € 250 million bought back.

27 | Deposits from customers

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

Deposits from customers – breakdown by product class and segments

	At amortized cost	
in € million	31.12.2022	31.12.2021
Savings deposits	**5,360**	**6,025**
Retail & SME	5,355	6,020
Corporates, Real Estate & Public Sector	3	3
Corporate Center	2	2
Other deposits	**28,928**	**29,123**
Retail & SME	22,362	22,893
Corporates, Real Estate & Public Sector	5,904	5,731
Treasury	546	420
Corporate Center	116	79
Deposits from customers	**34,288**	**35,148**

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 2022

31.12.2022 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	5	–	5
Bonds	–	–	4	44	20	68
Subordinated capital	–	31	32	16	11	90
Short-term notes and non-listed private placements	–	–	2	39	–	41
Liabilities at amortized cost						
Deposits from customers	28,134	2,797	2,394	803	160	34,288
Deposits from credit institutions	69	183	4,716	629	747	6,344
Bonds	–	104	20	2,144	6,410	8,678
Subordinated capital	–	–	–	43	–	43
Supplementary capital	–	–	12	–	590	602
Short-term notes and non-listed private placements	–	35	5	632	42	714
Total	**28,203**	**3,150**	**7,185**	**4,355**	**7,980**	**50,873**

Financial liabilities – breakdown by remaining period to maturity 2021

31.12.2021 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	2	5	–	6	13
Bonds	–	–	–	51	22	73
Subordinated capital	–	–	–	86	17	103
Short-term notes and non-listed private placements	–	–	–	29	17	46
Liabilities at amortized cost						
Deposits from customers	30,364	854	2,055	1,050	825	35,148
Deposits from credit institutions	80	156	23	6,199	903	7,361
Bonds	–	510	15	380	5,375	6,280
Subordinated capital	–	–	–	45	–	45
Supplementary capital	–	–	–	35	607	642
Short-term notes and non-listed private placements	–	–	3	121	66	190
Total	**30,444**	**1,522**	**2,101**	**7,996**	**7,838**	**49,901**

29 | Provisions

in € million	31.12.2022	31.12.2021
Provisions for social capital	260	334
Thereof for severance payments	65	84
Thereof for pension provisions	174	221
Thereof for jubilee benefits	21	29
Anticipated losses from pending business	13	15
Credit promises and guarantees	13	15
Other items including legal risks	11	33
Provisions	**284**	**382**

Provisions for social capital are long-term liabilities. Provisions for anticipated losses from pending business in the amount of € 13 million (2021: € 15 million) and other risks including legal risks in the amount of € 11 million (2021: € 20 million) are expected to be used after more than 12 months.

Changes in social capital

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2022	**237**	**84**	**29**	**350**
Service cost	0	4	2	6
Interest cost	2	1	0	3
Actuarial gain/loss				
from demographic assumptions	–	–	(2)	(2)
from financial assumptions	(40)	(16)	(4)	(60)
due to other reasons, mainly experience results	4	0	(1)	3
Gain from settlements	0	–	–	0
Return on plan assets (excl. interest income)	1	–	–	1
Other				
Payments	(18)	(8)	(3)	(29)
Payments from settlements	–	–	–	–
Other	(1)	–	–	(1)
Defined benefit obligation as of 31.12.2022	**185**	**65**	**21**	**271**
Fair value of plan assets	(11)	–	–	(11)
Provision as of 31.12.2022	**174**	**65**	**21**	**260**

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2021	**273**	**95**	**32**	**400**
Service cost	1	4	2	7
Interest cost	2	1	0	3
Actuarial gain/loss				
from demographic assumptions	(1)	–	–	(1)
from financial assumptions	(9)	(3)	(1)	(13)
due to other reasons, mainly experience results	2	(3)	(2)	(3)
Gain from settlements	(2)	–	–	(2)
Return on plan assets excluding interest income recognized in profit or loss	(1)	–	–	(1)
Other				
Payments	(16)	(12)	(2)	(30)
Payments from settlements	(16)	–	–	(16)
Change in scope of consolidation	3	2	0	5
Defined benefit obligation as of 31.12.2021	**237**	**84**	**29**	**350**
Fair value of plan assets	(16)	–	–	(16)
Provision as of 31.12.2021	**221**	**84**	**29**	**334**

On 31 December 2022, the weighted average duration was 9.60 years (2021: 11.26 years) for defined benefit obligations relating to pension plans (excluding Südwestbank, start:bausparkasse Germany, BFL Leasing, Health Coevo,

Zahnärztekasse and Depfa Bank) and 9.99 years (2021: 11.26 years) for obligations arising from entitlement to severance payments.

Weighted average duration for defined benefit obligations relating to pension plans in years	2022	2021
start:bausparkasse Germany	12.50	15.70
Südwestbank	6.90	8.20
BFL Leasing	8.90	10.20
Health Coevo	13.80	17.30
Zahnärztekasse	14.10	15.40
Depfa Bank	14.01	17.33

Assignable unit-linked pension fund assets

in € million	2022	2021
Pension fund assets as of 01.01.2022	**16**	**15**
Foreign exchange differences	0	0
Additions	1	1
Payments	(4)	(1)
Fair value changes	(1)	0
Returns on plan assets	(1)	1
Pension fund assets as of 31.12.2022	**11**	**16**

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 %	2022	2021
Qualified insurance policies	0%	13%
Bonds	44%	38%
Equities	25%	24%
Real estate	15%	12%
Cash and cash equivalents	2%	3%
Alternative investments	2%	2%
Other	12%	8%

Bonds issued by BAWAG P.S.K. amount to 0.001% of plan assets.

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

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

- a strategic asset mix comprising 44% bonds, 25% equities, 15% real estate and 16% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: bonds: 25%–100%, equities: 10%–25%, other investments: 0%–37%;
- interest rate risk is monitored and managed through active duration risk management of all fixed-income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 20%.

BAWAG Group expects that payments in the amount of € 0.2 million will have to be made to the pension fund in 2023 (2022: € 0.2 million) for asset purchases.

Sensitivity analysis

Reasonably possible changes to one of the relevant actuarial assumptions on the reporting date, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2022 in the amount of € 250 million (2021: € 320 million):

Sensitivity analysis as of 31 December 2022

	Provisions for post-employment benefits and severance payments	
in € million	Increase of variable	Decrease of variable
Discount rate (1) percentage point movement	221	270
Future salary growth (1) percentage point movement	267	233
Attrition (1) percentage point movement	236	244
Future mortality (1) percentage point movement (post-employment benefits only)	178	179

Sensitivity analysis as of 31 December 2021

	Provisions for post-employment benefits and severance payments	
in € million	Increase of variable	Decrease of variable
Discount rate (1) percentage point movement	276	351
Future salary growth (1) percentage point movement	345	280
Attrition (1) percentage point movement	300	311
Future mortality (1) percentage point movement (post-employment benefits only)	226	228

Changes in other provisions

in € million	Balance 01.01.2022	Change in scope of consolidation	Added	Used	Released	Other adjustments	**Balance 31.12.2022**
Other provisions	**48**	**–**	**6**	**(22)**	**(9)**	**1**	**24**
Anticipated losses from pending business	15	–	6	(1)	(7)	–	13
Other items	33	–	–	(21)	(2)	1	11

in € million	Balance 01.01.2021	Change in scope of consolidation	Added	Used	Released	Other adjustments	Balance 31.12.2021
Other provisions	**40**	**34**	**8**	**(16)**	**(16)**	**(2)**	**48**
Anticipated losses from pending business	25	–	8	(2)	(16)	–	15
Other items	15	34	–	(14)	–	(2)	33

30 | Other obligations

in € million	**31.12.2022**	31.12.2021
Accounts relating to payment transactions	286	275
Lease liabilities IFRS 16	192	209
Liabilities resulting from restructuring	35	67
Other liabilities	266	294
Accruals	18	23
Other obligations	**797**	**868**

According to IFRS 16, a lease liability is recognized at the commencement of a lease. The lease liability is measured at the present value of the lease payments. As of 31 December 2022, other obligations in the amount of € 285 million (31 December 2021: € 328 million) have a maturity of more than one year.

31 | Hedging derivatives

in € million	31.12.2022	31.12.2021
Hedging derivatives in fair value hedges		
Positive market values	23	169
Negative market values	150	17
Hedging derivatives in cash flow hedges		
Positive market values	304	9
Negative market values	93	87
Hedging derivatives in net investment hedge		
Positive market values	11	–
Negative market values	2	3

Fair value hedge

	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial assets at fair value through other comprehensive income	**3,436**	**3,847**	**1**	**–**	**5**	**3**
Securities	3,436	3,847	1	–	5	3
Financial instruments recognized at amortized cost	**29,510**	**23,949**	**(128)**	**152**	**(18)**	**16**
Securities	589	332	1	0	2	1
Own issues	9,188	5,777	(31)	49	(21)	29
Loans to customers	5,394	3,871	551	82	4	2
Liabilities to customers	14,339	13,969	(649)	21	(3)	(16)
Total	**32,946**	**27,796**	**(127)**	**152**	**(13)**	**19**

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

Cash flow hedge

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

31.12.2022 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	910	5,016	3,289	9,215

31.12.2021 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	637	2,024	2,537	5,198

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

31.12.2022 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	674	3,363	1,223	5,260

31.12.2021 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	662	2,023	2,520	5,205

Disclosure according to IFRS 7.24B a)

	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
31.12.2022 in € million	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
ASSETS				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	2,350	(219)	0	–
Financial assets measured at amortized cost				
Interest rate related	2,515	(482)	–	3,784
LIABILITIES				
Financial liabilities measured at amortized costs				
Interest rate related	8,327	(1,323)	(149)	11,705

	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
31.12.2021 in € million	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
ASSETS				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	3,092	(20)	0	–
Financial assets measured at amortized cost				
Interest rate related	2,897	(42)	0	2,095
LIABILITIES				
Financial liabilities measured at amortized costs				
Interest rate related	6,214	(66)	32	9,107

Hedged items in cash flow hedges

31.12.2022 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	3	(19)	-

31.12.2021 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges1)	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	21	(22)	-

1) Adjusted due to correction of editorial error.

Hedged items in net investment hedges

31.12.2022 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investement hedge reserve for terminated hedges
Foreign exchange risk	(9)	(2)	-

31.12.2021 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investement hedge reserve for terminated hedges
Foreign exchange risk	(10)	7	-

32 | Equity

Share capital

The fully paid-in share capital of BAWAG Group AG amounts to € 82.5 million (2021: € 89.1 million) divided into 82,500,000 bearer shares (2021: 89,142,237 bearer shares). BAWAG Group AG holds 352,840 own shares (2021: 287,190 own shares), thus the share capital amounts to € 82.1 million for accounting purposes (2021: € 88.9 million). The number of bearer shares excluding own shares is 82,147,160 (2021: 88,855,047).

On 20 July 2022 the Management Board received the decision of the European Central Bank approving a share buyback of € 325 million. On 25 July 2022 a share buyback program of € 325 million was started and was completed on 25 November 2022 (6,941,942 shares bought back). As a consequence, 6,642,237 treasury shares were cancelled with effectiveness per 6 December 2022 which resulted in a reduction of share capital to € 82,500,000 (82,500,000 shares).

Authorized capital

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

Conditional capital

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

Capital reserves and retained earnings

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

AT1 capital

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

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

Dividends

BAWAG Group earmarked dividends of € 305 million, subject to shareholder approvals, for the financial year 2022, which will be proposed to the ordinary Annual General Meeting on 31 March 2023 (total of € 3.70 per share; based on the number of shares expected to be outstanding at the time of the Annual General Meeting).

Dividends of € 267 million (€ 3.00 per share) were distributed in 2022.

Non-controlling interests

The 95% share in Morgenstern Miet + Leasing GmbH and the 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of € 0.3 million (2021: € 5 million; 97.87% share in BFL Leasing GmbH, 92.98% share in Morgenstern Miet + Leasing GmbH and 75% share in ACP-IT Finanzierungs GmbH).

Liability reserve (Haftrücklage)

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

Changes in other comprehensive income

in € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/ losses net of tax	Debt instru-ments at fair value through other compre-hensive income net of tax excluding equity associates	Debt instru-ments at fair value through other compre-hensive income net of tax from equity associates	Shares and other equity invest-ments at fair value through other compre-hensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net invest-ment in foreign operations net of tax	Foreign exchange differ-ences	Equity attribu-table to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2022	**318.3**	**2.6**	**34.7**	**(96.3)**	**(17.5)**	**(23.6)**	**4.8**	**(9.0)**	**9.5**	**223.5**	**0.3**	**223.8**
Consolidated profit/loss	318.3	–	–	–	–	–	–	–	–	318.3	0.3	318.6
Income and expenses recognized directly in equity	**–**	**2.6**	**34.7**	**(96.3)**	**(17.5)**	**(23.6)**	**4.8**	**(9.0)**	**9.5**	**(94.8)**	**–**	**(94.8)**
Change in cash flow hedge reserve	–	3.5	–	–	–	–	–	–	–	3.5	–	3.5
Change in Debt securities at fair value through other comprehensive income	–	–	–	(129.2)	–	–	–	–	–	(129.2)	–	(129.2)
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	(17.5)	–	–	–	–	(17.5)	–	(17.5)
Actuarial gains (losses) on defined benefit pension plans	–	–	50.1	–	–	–	–	–	–	50.1	–	50.1
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	(31.9)	–	–	–	(31.9)	–	(31.9)
Change in credit spread of financial liabilities	–	–	–	–	–	–	6.4	–	–	6.4	–	6.4
Hedge of net investment in foreign operations	–	–	–	–	–	–	–	(9.0)	–	(9.0)	–	(9.0)
Foreign exchange differences	–	–	–	–	–	–	–	–	9.5	9.5	–	9.5
Income taxes	–	(0.9)	(15.4)	32.9	–	8.3	(1.6)	–	–	23.3	–	23.3

in € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other compre-hensive income net of tax excluding equity associates	Debt instruments at fair value through other compre-hensive income net of tax from equity associates	Shares and other equity investments at fair value through other compre-hensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2021	**479.9**	**(20.8)**	**11.1**	**(23.8)**	**(2.5)**	**63.7**	**(0.1)**	**(10.3)**	**12.0**	**509.2**	**0.2**	**509.4**
Consolidated profit/loss	479.9	–	–	–	–	–	–	–	–	479.9	0.2	480.1
Income and expenses recognized directly in equity	**–**	**(20.8)**	**11.1**	**(23.8)**	**(2.5)**	**63.7**	**(0.1)**	**(10.3)**	**12.0**	**29.3**	**–**	**29.3**
Change in cash flow hedge reserve	–	(27.8)	–	–	–	–	–	–	–	(27.8)	–	(27.8)
Change in Debt securities at fair value through other comprehensive income	–	–	–	(32.2)	–	–	–	–	–	(32.2)	–	(32.2)
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	(2.5)	–	–	–	–	(2.5)	–	(2.5)
Actuarial gains (losses) on defined benefit pension plans	–	–	14.8	–	–	–	–	–	–	14.8	–	14.8
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	84.7	–	–	–	84.7	–	84.7
Change in credit spread of financial liabilities	–	–	–	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Hedge of net investment in foreign operations	–	–	–	–	–	–	–	(10.3)	–	(10.3)	–	(10.3)
Foreign exchange differences	–	–	–	–	–	–	–	–	12.0	12.0	–	12.0
Income taxes	–	7.0	(3.7)	8.4	–	(21.0)	0.0	–	–	(9.3)	–	(9.3)

Deferred income taxes recognized in other comprehensive income

in € million	Before taxes	Income taxes	After taxes
		01.01.–31.12.2022	
Cash flow hedge reserve	3.5	(0.9)	2.6
Actuarial gains (losses) on defined benefit pension plans	50.1	(15.4)	34.7
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	(129.2)	32.9	(96.3)
Debt instruments at fair value through other comprehensive income net of tax from equity associates	(17.4)	–	(17.4)
Shares and other equity investments at fair value through other comprehensive income net of tax	(31.8)	8.3	(23.5)
Change in credit spread of financial liabilities net of tax	6.4	(1.6)	4.8
Hedge of net investment in foreign operations net of tax	(9.1)	–	(9.1)
Foreign exchange differences	9.4	–	9.4
Income and expenses recognized directly in equity	**(118.1)**	**23.3**	**(94.8)**

in € million	Before taxes	Income taxes	After taxes
		01.01.–31.12.2021	
Cash flow hedge reserve	(27.8)	7.0	(20.8)
Actuarial gains (losses) on defined benefit pension plans	14.8	(3.7)	11.1
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	(32.2)	8.4	(23.8)
Debt instruments at fair value through other comprehensive income net of tax from equity associates	(2.5)	–	(2.5)
Shares and other equity investments at fair value through other comprehensive income net of tax	84.7	(21.0)	63.7
Change in credit spread of financial liabilities net of tax	(0.1)	(0.0)	(0.1)
Hedge of net investment in foreign operations net of tax	(10.3)	–	(10.3)
Foreign exchange differences	12.0	–	12.0
Income and expenses recognized directly in equity	**38.6**	**(9.3)**	**29.3**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2022.

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

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

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

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

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

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

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

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

2022 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total
Net interest income	750.2	262.9	43.7	(35.7)	1,021.1
Net fee and commission income	276.8	33.7	(0.7)	(0.5)	309.3
Core revenues	**1,027.0**	**296.6**	**43.0**	**(36.2)**	**1,330.4**
Gains and losses from financial instruments & other operating income and expenses	4.5	17.1	34.9	(62.8)	(6.4)
Operating income	**1,031.5**	**313.6**	**77.9**	**(99.0)**	**1,324.0**
Operating expenses	**(342.7)**	**(71.5)**	**(37.4)**	**(23.2)**	**(474.8)**
Pre-provision profit	**688.8**	**242.2**	**40.5**	**(122.3)**	**849.2**
Regulatory charges	(18.4)	(12.0)	(7.6)	(10.8)	(48.8)
Total risk costs	(80.6)	(36.2)	(5.1)	(254.4)	(376.3)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	2.7	2.7
Profit before tax	**589.8**	**194.0**	**27.8**	**(384.8)**	**426.8**
Income taxes	(147.5)	(48.4)	(6.9)	94.6	(108.2)
Profit after tax	**442.4**	**145.6**	**20.9**	**(290.2)**	**318.6**
Non-controlling interests	–	–	–	(0.3)	(0.3)
Net profit	**442.4**	**145.6**	**20.9**	**(290.6)**	**318.3**
Business volumes					
Assets	22,375	14,503	18,386	1,259	56,523
Liabilities	35,369	12,780	3,613	4,761	56,523
Risk-weighted assets	9,587	7,502	1,748	1,827	20,664

2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total
Net interest income	660.1	258.4	49.8	(30.0)	938.3
Net fee and commission income	251.1	34.0	0.1	(3.1)	282.1
Core revenues	**911.2**	**292.4**	**49.9**	**(33.1)**	**1,220.4**
Gains and losses from financial instruments & other operating income and expenses	5.8	19.9	22.3	(39.9)	8.1
Operating income	**917.0**	**312.4**	**72.3**	**(73.2)**	**1,228.5**
Operating expenses	**(351.7)**	**(69.5)**	**(34.8)**	**(29.3)**	**(485.3)**
Pre-provision profit	**565.4**	**242.9**	**37.5**	**(102.6)**	**743.2**
Regulatory charges	(21.4)	(10.4)	(7.8)	(12.0)	(51.6)
Total risk costs	(60.0)	(29.0)	3.0	(9.0)	(95.0)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	3.8	3.8
Profit before tax	**483.9**	**203.4**	**32.7**	**(119.6)**	**600.4**
Income taxes	(121.0)	(50.9)	(8.2)	59.7	(120.4)
Profit after tax	**362.9**	**152.5**	**24.5**	**(59.9)**	**480.0**
Non-controlling interests	–	–	–	(0.1)	(0.1)
Net profit	**362.9**	**152.5**	**24.5**	**(60.0)**	**479.9**
Business volumes					
Assets	21,129	14,899	18,213	2,084	56,325
Liabilities	34,330	13,252	2,814	5,929	56,325
Risk-weighted assets	8,105	7,894	1,845	2,291	20,135

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

Geographical split

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

The following tables show core revenues per segment and geography:

2022 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total
DACH / NL	975.2	109.2	8.2	(53.7)	1,038.9
thereof Austria	790.5	78.7	1.0	(47.0)	823.2
thereof Germany	138.5	27.7	3.1	(6.7)	162.6
Western Europe / USA	51.8	187.4	34.8	17.5	291.5
Total	**1,027.0**	**296.6**	**43.0**	**(36.2)**	**1,330.4**

2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total
DACH / NL	860.0	108.1	11.3	(49.8)	929.6
thereof Austria	711.2	75.2	2.7	(48.7)	740.4
thereof Germany	111.1	30.2	3.5	(1.1)	143.7
Western Europe / USA	51.2	184.3	38.6	16.7	290.8
Total	**911.2**	**292.4**	**49.9**	**(33.1)**	**1,220.4**

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

in € million	2022	2021
Other operating income and expenses according to segment report[1)]	6.8	(3.2)
Regulatory charges[1)]	(44.6)	(46.7)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(37.8)**	**(49.9)**

in € million	2022	2021
Operating expenses according to segment report[1)]	(474.8)	(485.3)
Regulatory charges[1)]	(4.2)	(4.9)
Operating expenses according to Consolidated Profit or Loss Statement	**(479.0)**	**(490.1)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 44.6 million for 2022. The item Operating expenses includes regulatory charges in the amount of € 4.2 million for 2022 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report.

CAPITAL MANAGEMENT

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

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

The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

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

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

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

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

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

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

As part of the BAWAG Capital Management, MREL requirements are also monitored on a regular basis. In Q1 2022, BAWAG Group received its new MREL decision from the Single Resolution Board ("SRB"). It is based on a single point of entry resolution strategy with BAWAG P.S.K. as the resolution entity. The MREL requirement has been set at 25.8% of RWA (incl. CBR) on the consolidated level of BAWAG P.S.K. AG, with the final requirement being applicable from 1.1.2024. The MREL decision also sets the binding interim target of 22.1% of RWA (incl. CBR), which had to be met by 1.1.2022. The current MREL decision does not contain a subordination requirement. In addition to the MREL requirement in % of RWA, according to the new SRB decision the MREL requirement in % of LRE (leverage ratio exposure) has been set at 5.91% on the consolidated level of BAWAG P.S.K. AG, with the final requirement being applicable from 1.1.2022.

During the financial year 2022, the MREL ratios, based on both risk-weighted assets (RWA) and on leverage ratio exposure (LRE), were complied with. As of 31 December 2022, BAWAG reported MREL-eligible instruments amounting to 26.08% of RWA and 9.36% of LRE (including interim profit and the deduction of the foreseen dividend).

The table below shows the breakdown of own funds of BAWAG Group applying transitional rules (including interim profit and the deduction of the foreseen dividend in the amount of € 305 million payable subject to the respective resolution in the Annual General Meeting) and its own funds requirement as of 31 December 2022 and 31 December 2021 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. In addition to the BAWAG Group own funds, the following tables show the breakdown of the eligible liabilities and own funds (MREL) on the consolidated level of BAWAG P.S.K. Group.

	BAWAG Group	
in € million	**31.12.2022**	31.12.2021
Share capital and reserves (including funds for general banking risk)[1)2)]	3,366	3,694
Deduction of intangible assets	(414)	(414)
Other comprehensive income	(144)	(55)
IRB risk provision shortfalls	–	(4)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	10	17
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(0)	–
Deduction for CET1 instruments of financial sector entities where the institution does not have a significant investment	–	(4)
Insufficient coverage for non-performing exposures	(0)	–
Additional deductions of CET 1 capital due to article 3 CRR[2)]	(25)	(222)
Common Equity Tier I	**2,793**	**3,012**
Capital instruments eligible as additional Tier 1 capital	475	475
Less significant investments	(70)	–
Additional Tier I	**405**	**475**
Tier I	**3,197**	**3,487**
Tier II capital	592	620
Tier II capital in grandfathering	13	19
Excess IRB risk provisions	48	28
Less significant investments	(24)	(25)
Tier II	**628**	**642**
Own funds	**3,825**	**4,129**

1) In this item, dividends not yet paid out for the financial year 2022 in the amount of € 304.5 million and a share buyback in the amount of € 325.0 million were deducted (31 December 2021: € 267.0 million dividends not yet paid out for the financial year 2021, no share buyback in financial year 2021).

2) As of 31 December 2021, the line item "Additional deductions of CET 1 capital due to article 3 CRR" included a deduction of a prudential filter for the City of Linz. As of 31 December 2022, the prudential filter was released since it had been fully recognized in the profit and loss statement included in the line item "Share capital and reserves."

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

	BAWAG Group	
in € million	**31.12.2022**	31.12.2021
Credit risk	18,642	18,117
Operational risk	2,022	2,018
Capital requirements (risk-weighted assets)	**20,664**	**20,135**

Supplemental information on a fully loaded basis

	BAWAG Group	
	31.12.2022	31.12.2021
Common Equity Tier 1 capital ratio based on total risk	13.5%	15.0%
Total capital ratio based on total risk	18.5%	20.4%

Key figures according to CRR including its transitional rules

	BAWAG Group	
	31.12.2022	31.12.2021
Common Equity Tier 1 capital ratio based on total risk	13.5%	15.0%
Total capital ratio based on total risk	18.5%	20.5%

During the financial year 2022, BAWAG Group complied with the overall capital requirement imposed by the SREP of 9.18% CET1, 11.06% Tier 1 and 13.56% total capital or 9.93%/11.81%/14.31% including Pillar 2 guidance.[1)]

During the financial year 2021, BAWAG Group complied with the overall capital requirement imposed by the SREP of 9.14% CET1, 11.01% Tier 1 and 13.51% total capital or 10.14%/12.01%/14.51% including Pillar 2 guidance.[2)]

1 Countercyclical buffer of 0.0593% based on exposure as of December 2022.
2 Countercyclical buffer of 0.0107% based on exposure as of December 2021.

MREL

	BAWAG P.S.K.	
in € million	31.12.2022	31.12.2021
Legacy MREL – SP	997	990
New senior preferred	331	–
SNP and other subordinated liabilities	511	619
Eligible liabilities	**1,839**	**1,609**
Own funds	**3,550**	**3,589**
Total MREL	**5,389**	**5,198**
RWA	**20,666**	**20,135**
MREL ratio	26.1%	25.8%
MREL requirement	22.1%	–
LRE	**57,542**	**57,863**
MREL ratio	9.4%	9.0%
MREL requirement	5.9%	–

FURTHER DISCLOSURES REQUIRED BY IFRS

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

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

in € million	01.01.2022	Change in scope of consolidation	Fair value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Issuance of new bonds	Additions	Repurchase/ Redemption/ Cash change	Others	**31.12.2022**
Financial liabilities designated at fair value through profit or loss									
Subordinated and supplementary capital	103	–	–	(12)	–	–	0	(1)	90
Financial liabilities measured at amortized cost									
Subordinated and supplementary capital	687	0	(19)	–	0	–	0	(23)	645
Other obligations									
Lease liability	209	0	–	–	–	–	(30)	13	192

in € million	01.01.2021	Change in scope of consolidation	Fair value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Issuance of new bonds	Additions	Repurchase/ Redemption/ Cash change	Others	31.12.2021
Financial liabilities designated at fair value through profit or loss									
Subordinated and supplementary capital	106	–	–	(4)	–	–	0	1	103
Financial liabilities measured at amortized cost									
Subordinated and supplementary capital	673	23	(5)	–	0	–	(4)	0	687
Other obligations									
Lease liability	226	4	–	–	–	–	(26)	5	209

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

34 | Fair value

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

in € million	Carrying amount 31.12.2022	Fair value 31.12.2022	Carrying amount 31.12.2021	Fair value 31.12.2021
Assets				
Cash reserves	520	520	1,894	1,894
Financial assets designated at fair value through profit or loss	58	58	77	77
Loans to customers	58	58	77	77
Financial assets mandatorily at fair value through profit or loss	499	499	534	534
Securities	307	307	328	328
Loans to customers	78	78	108	108
Subsidiaries and other equity investments	113	113	98	98
Financial assets at fair value through other comprehensive income	2,743	2,743	3,754	3,754
Debt instruments	2,578	2,578	3,395	3,395
Subsidiaries and other equity investments	165	165	359	359
Financial assets held for trading	156	156	257	257
At amortized cost	51,585	50,039	48,448	48,771
Customers	35,763	34,374	34,963	35,238
Credit institutions	12,655	12,639	11,166	11,160
Securities	3,167	3,026	2,319	2,373
Valuation adjustment on interest rate risk hedged portfolios	(619)	(619)	(94)	(94)
Hedging derivatives	338	338	178	178
Property, plant and equipment	268	n/a	290	n/a
Investment properties	84	84	104	104
Intangible non-current assets	522	n/a	535	n/a
Other assets	344	n/a	348	n/a
Non-current assets held for sale	25	25	–	–
Total assets	**56,523**		**56,325**	

in € million	Carrying amount 31.12.2022	Fair value 31.12.2022	Carrying amount 31.12.2021	Fair value 31.12.2021
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	204	204	234	234
Issued debt securities and other securitized liabilities	109	109	119	119
Subordinated and supplementary capital	90	90	103	103
Deposits from customers	5	5	12	12
Financial liabilities held for trading	692	692	301	301
Financial liabilities at amortized cost	50,669	50,289	49,666	49,745
Deposits from credit institutions	6,344	6,326	7,361	7,360
Deposits from customers	34,288	34,148	35,148	35,174
Issued bonds, subordinated and supplementary capital	10,037	9,815	7,157	7,211
Financial liabilities associated with transferred assets	394	394	–	–
Valuation adjustment on interest rate risk hedged portfolios	(891)	(891)	165	165
Hedging derivatives	245	245	107	107
Provisions	284	n/a	382	n/a
Other obligations	935	n/a	1,092	n/a
Equity	3,991	n/a	4,373	n/a
Non-controlling interests	0	n/a	5	n/a
Total liabilities and equity	**56,523**		**56,325**	

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

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

Carrying amount adjustments of hedged items in a portfolio fair value hedge are presented in a separate balance sheet item Valuation adjustment on interest rate risk hedged portfolios in accordance with IFRS 9. To enable a direct comparison with the balance sheet items, fair value changes relating to the interest rate risk hedged here are also presented in a separate line.

Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

As of 31 December 2022, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in the Group's credit spreads was plus € 6.9 million (plus € 0.5 million as of 31 December 2021). This is defined as the product of the credit spread basis point value with the respective spread change, supplemented by the pull-to-par effect. As of 31 December 2022, the cumulative fair value change resulting from changes in the Group's credit rating amounted to plus € 4.9 million (minus € 1.9 million as of 31 December 2021).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.04 million (minus € 0.06 million as of 31 December 2021).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to € 0.2 million as of 31 December 2022 (€ 0.0 million as of 31 December 2021) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to € 0.2 million (€ 0.0 million as of 31 December 2021).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.03 million (plus € 0.04 million as of 31 December 2021).

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

  The fair values of material investment properties are based on external and internal valuations.

  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.

31.12.2022 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	58	–	58
Financial assets mandatorily at fair value through profit or loss	2	24	473	499
Financial assets at fair value through other comprehensive income	2,427	167	149	2,743
Debt instruments	2,427	151	–	2,578
Subsidiaries and other equity investments	–	16	149	165
Financial assets held for trading	–	156	–	156
Financial assets measured at amortized cost	1,749	14,497	33,793	50,039
Valuation adjustment on interest rate risk hedged portfolios	–	(619)	–	(619)
Hedging derivatives	–	338	–	338
Investment properties	–	–	84	84
Non-current assets held for sale	–	–	25	25
Total assets	**4,178**	**14,621**	**34,524**	**53,323**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	172	32	204
Issued debt securities and other securitized liabilities	–	77	32	109
Subordinated and supplementary capital	–	90	–	90
Deposits from customers	–	5	–	5
Financial liabilities held for trading	–	692	–	692
Financial liabilities at amortized cost	–	17,560	32,729	50,289
Financial liabilities associated with transferred assets	–	394	–	394
Valuation adjustment on interest rate risk hedged portfolios	–	(891)	–	(891)
Hedging derivatives	–	245	–	245
Total liabilities	**–**	**18,172**	**32,761**	**50,933**

31.12.2021 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	77	–	77
Financial assets mandatorily at fair value through profit or loss	2	72	460	534
Financial assets at fair value through other comprehensive income	3,427	180	147	3,754
Debt instruments	3,235	160	–	3,395
Subsidiaries and other equity investments	192	20	147	359
Financial assets held for trading	0	257	–	257
Financial assets measured at amortized cost	1,518	12,747	34,506	48,771
Valuation adjustment on interest rate risk hedged portfolios	–	(94)	–	(94)
Hedging derivatives	–	178	–	178
Investment properties	–	–	104	104
Non-current assets held for sale	–	–	–	–
Total assets	**4,947**	**13,417**	**35,217**	**53,581**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	194	40	234
Issued debt securities and other securitized liabilities	–	86	33	119
Subordinated and supplementary capital	–	103	–	103
Deposits from customers	–	5	7	12
Financial liabilities held for trading	–	301	–	301
Financial liabilities at amortized cost	–	13,978	35,767	49,745
Financial liabilities associated with transferred assets	–	–	–	–
Valuation adjustment on interest rate risk hedged portfolios	–	165	–	165
Hedging derivatives	–	107	–	107
Total liabilities	**–**	**14,745**	**35,807**	**50,552**

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

Movements between Level 1 and Level 2

In 2022, securities at fair value through other comprehensive income with a book value of € 28 million (2021: € 0 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices. Securities at fair value through other comprehensive income with a book value of € 4 million (2021: € 63 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 financial instruments measured at fair value

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

			Financial assets at fair value through other comprehensive income		
in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2022	**460**	**–**	**–**	**147**	**40**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	12	–	–	(1)	(1)
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)	1
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	76	–	–	5	–
Redemptions	(24)	–	–	–	(8)
Sales	(56)	–	–	(3)	–
Foreign exchange differences	7	–	–	6	–
Change in scope of consolidation	(1)	–	–	(1)	–
Closing balance as of 31.12.2022	**473**	**–**	**–**	**149**	**32**

in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial liabilities
			Debt instruments	Subsidiaries and other equity investments	
Opening balance as of 01.01.2021	**513**	**–**	**0**	**41**	**320**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	52	–	0	0	(1)
for assets no longer held at the end of the period	0	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	39	1
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	6	–	–	61	–
Redemptions	(65)	–	(1)	–	(280)
Sales	(58)	–	–	0	–
Foreign exchange differences	13	–	–	6	–
Change in scope of consolidation	(1)	–	–	1	–
Closing balance as of 31.12.2021	**460**	**–**	**–**	**147**	**40**

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

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

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank and the former IMMO-BANK is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium for own issues of BAWAG P.S.K. Wohnbaubank depends on the maturity and is currently 125 basis points (31 December 2021: 117 basis points) for 5 years (mid). For issues of the former IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

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

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

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

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

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

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

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

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

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

The fair values of customer liabilities at fair value through profit or loss are determined analogously to receivables using the discounted cash flow method and the Bachelier model.

Sensitivity analysis of fair value measurement from changes in unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. The current COVID-19 situation and the Russia-Ukraine conflict result in increased uncertainty with regard to unobservable input parameters and the measurement of the fair value of such items. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and the former IMMO-BANK and customer deposits in start:bausparkasse.

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 2022 would have increased by € 0.0 million (31 December 2021: € 0.1 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 31 December 2022 would have decreased by € 0.0 million (31 December 2021: € 0.1 million).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus € 1.8 million as of 31 December 2022 (31 December 2021: plus € 2.0 million) and is calculated as the change in the credit spread over the swap curve during the observed period. The corresponding annual fair value change amounted to minus € 0.2 million (31 December 2021: plus € 0.8 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.04 million (31 December 2021: plus € 0.07 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 31 December 2022 would have decreased by € 2.3 million (31 December 2021: € 5.8 million). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 31 December 2022 would have increased by € 2.6 million (31 December 2021: € 6.6 million).

If the liquidity discount of illiquid funds is increased by 10 percentage points, the valuation result as of 31 December 2022 would have decreased by € 0.5 million (31 December 2021: € 0.9 million). If the liquidity discount of illiquid funds is decreased by 10 percentage points, the valuation result as of 31 December 2022 would have increased by € 0.5 million (31 December 2011: € 0.9 million).

For the valuation of a part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments is decreased by 100 basis points, the fair value would increase by € 18.1 million (thereof € 14.3 million FVTOCI and € 3.8 million FVTPL; 31 December 2021: € 20.0 million; thereof € 16.1 million FVTOCI and € 3.9 million FVTPL), whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 14.3 million (thereof € 11.3 million FVTOCI and € 3.0 million FVTPL; 31 December 2021: € 15.8 million; thereof € 12.7 million FVTOCI and € 3.1 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 40.4 million (thereof € 34.2 million FVTOCI and € 6.2 million FVTPL; 31 December 2021: € 39.1 million; thereof € 32.6 million FVTOCI and € 6.5 million FVTPL); if changes in dividend income or net profit where applicable declined by 20%, the fair value would decrease by € 39.4 million (thereof € 33.4 million FVTOCI and € 6.0 million FVTPL; 31 December 2021: € 37.8 million; thereof € 31.8 million FVTOCI and € 6.0 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 8.2 million (thereof € 2.0 million FVTOCI and € 6.2 million FVTPL; 31 December 2021: € 7.9 million, thereof € 0.9 million FVTOCI and € 7.0 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 8.2 million (thereof € 2.0 million FVTOCI and € 6.2 million FVTPL; 31 December 2021: € 7.9 million; thereof € 0.9 million FVTOCI and € 7.0 million FVTPL).

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 3.3 million (thereof € 2.4 million FVTOCI and € 0.9 million FVTPL; 31 December 2021: € 2.1 million; thereof € 2.1 million FVTOCI and € 0.9 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 3.3 million (thereof € 2.4 million FVTOCI and € 0.9 million FVTPL; 31 December 2021: € 2.1 million; thereof € 2.1 million FVTOCI and € 0.0 million FVTPL).

The fair value of the non-traded investment fund is based on fair value quotes provided by the fund manager. Based on the current portfolio allocation, one fund has an expected interest rate sensitivity of approximately minus € 0.2 million (31 December 2021: minus € 0.8 million) if rates rise by 100 bp and a credit spread sensitivity of minus € 0.2 million (31 December 2021: minus € 0.8 million) if credit spreads widen by 100 bp (and vice versa).

For the other fund, the following applies: If the fair value indicated increased by 10%, the Group would recognize a gain of € 19.0 million in profit or loss (31 December 2021: € 17.3 million). If the fair value indicated decreased by 10%, the Group would recognize a loss of € 19.0 million in profit or loss (31 December 2021: € 17.3 million).

If the interest rates used in calculating the fair value of customer liabilities accounted for at fair value through profit or loss increased by 100 basis points, the accumulated valuation result as of 31 December 2022 would have increased by € 0.0 million (31 December 2021: increase by € 0.0 million). If the interest rates decreased by 100 basis points, the accumulated valuation result as of 31 December 2022 would have decreased by € 0.0 million (31 December 2021: decrease by € 0.0 million).

Fair value changes of Level 3 assets with alternative parametrization

To determine the potential impact, credit spreads are used for debt securities, income funds with the risk factor credit spreads as well as loans. For these, the value range between +100bp and -50bp is used in the sensitivity analysis. An increase (a reduction) in spreads leads to a reduction (an increase) in the respective fair value.

31.12.2022 in € million	(50) bp	+50 bp	+100 bp
Financial assets at fair value through profit or loss	**1.4**	**(1.3)**	**(2.5)**
Debt securities	0.0	0.0	0.0
Loans to customers	1.3	(1.2)	(2.3)
Income funds	0.1	(0.1)	(0.2)
Financial assets at fair value through other comprehensive income	**0.0**	**0.0**	**0.0**
Debt securities	0.0	0.0	0.0

31.12.2021 in € million	(50) bp	+50 bp	+100 bp
Financial assets at fair value through profit or loss	**3.6**	**(3.4)**	**(6.6)**
Debt securities	0.0	0.0	0.0
Loans to customers	3.2	(3.0)	(5.8)
Income funds	0.4	(0.4)	(0.8)
Financial assets at fair value through other comprehensive income	**0.0**	**0.0**	**0.0**
Debt securities	0.0	0.0	0.0

35 | Treatment of day one gain

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

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

IFRS does not provide guidance on the presentation of the amortization of day one profits. Day one profit will be amortized on a systematic basis and is presented as part of interest income for performing loans and as part of risk costs for loans classified as POCI. The following differences will be recognized in income in subsequent years:

in € million	31.12.2022	31.12.2021
Balance at the beginning of the period	**14**	**25**
New transactions	77	–
Amounts recognized in profit or loss during the period	(24)	(11)
FX effects	0	0
Balance at the end of the period	**67**	**14**

36 | Related parties

Owners of BAWAG Group AG

The shares of BAWAG Group AG were admitted for trading on the Vienna Stock Exchange as of 25 October 2017 (first day of trading). Pursuant to the major holdings notifications received by BAWAG Group AG, (i) several funds and accounts under management by or whose holdings in BAWAG Group AG are subject to an investment management agreement with T.Rowe Price Group, Inc. held 6.1%, (ii) funds and accounts under management by Wellington Management Group LLP. and its affiliates held 5.9% and funds and accounts under management by BlackRock, Inc. and its affiliates held 4.0% as of 31 December 2022. BAWAG Senior Leadership Team held 3.6% as of 31 December 2022.

Major non-fully consolidated subsidiaries, joint ventures and equity investments of BAWAG P.S.K.

BAWAG P.S.K. Versicherung AG

BAWAG Group indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K. Versicherung AG is accounted for using the equity method in BAWAG Group's accounts. The business dealings between BAWAG Group and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG Group and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

PSA Payment Services Austria GmbH

BAWAG Group holds 20.82% in PSA Payment Services Austria GmbH. PSA is owned by several Austrian banks and banking groups and is engaged in the service and organization of ATM card business. PSA is accounted for using the equity method in BAWAG Group's accounts.

Other subsidiaries

Please refer to Note 50 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2022; P&L data are for the full year 2022).

31.12.2022 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	59	0	84	–
Unutilized credit lines	–	–	14	14	7	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	3	–	–	–
Financial liabilities – customers	–	–	14	77	1	–
Other liabilities (incl. derivatives)	–	–	0	–	–	–
Guarantees provided	–	–	3	–	–	–
Interest income[1])	–	–	0.8	0.3	0.2	–
Interest expense	–	–	0.0	1.1	0.0	–
Net fee and commission income	–	–	0.0	9.7	0.0	–

1) Gross income; hedging costs not offset.

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2021; P&L data are for the full year 2021).

31.12.2021 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	80	1	40	–
Unutilized credit lines	–	–	12	0	5	0
Securities	–	–	–	25	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	8	87	–	0
Other liabilities (incl. derivatives)	–	–	–	–	–	–
Guarantees provided	–	–	1	–	–	–
Interest income1)	–	–	0.6	0.2	0.2	–
Interest expense	–	–	0.0	1.0	–	0.0
Net fee and commission income	–	–	0.0	8.6	0.0	0.0

1) Gross income; hedging costs not offset.

Business relationships with these entities were subject to normal banking terms and conditions.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to € 0.0 million in 2022 (2021: € 0.0 million).

For loans with related parties, there were no valuation losses in the financial year 2022 (2021: € 5 million).

Information regarding natural persons

Key management

Key management of BAWAG Group refers to the members of the Management Board and the Supervisory Board of BAWAG Group AG and BAWAG P.S.K. AG. Total personnel expenses for the key management amount to € 42.0 million (2021: € 34.1 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Management Board of BAWAG Group AG and BAWAG P.S.K. AG during the financial year amounted to € 40.5 million (2021: € 33.0 million). These expenses consist of short-term benefits in the amount of € 21.0 million, expenses for long-term bonus benefits in the amount of € 16.5 million (of which €8.4 million relate to the portion of the total bonus award 2022 of €14.3 million to be expensed in 2022 [including amounts to be deferred], €3.3 million relate to the portion of the bonus award granted in 2021 to be expensed in 2022 and €4.8 million relate to expenses in connection with the Long Term Incentive Program 2025) and payments to the pension fund in the amount of € 3.1 million (2021: short-term benefits € 19.8 million, long-term bonus benefits € 10.3 million [total award including deferred parts € 18.0 million] and payments to the pension fund € 2.9 million). Expenses for remuneration in 2022 for former members of the Management Board amounted to € 0.0 million (2021: € 0.0 million).

As of 31 December 2022, contractual agreements governing the payment of contributions to pension funds were in force for all Management Board members.

In 2022, a long-term incentive program awarded 100% in shares was implemented for Management Board members and certain employees.

As of the reporting date, there were ten outstanding loans in the amount of € 35.8 million to members of the Management Board (2021: seven outstanding loans in the amount of € 9.6 million). Loans, building society loans and leasing financing to members of the Supervisory Board totaled € 0.2 million (2021: € 0.2 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Management Board and Supervisory Board members made no use of current account limits (2021: € 0.0 million) as of the reporting date. Turnover on credit cards guaranteed to third parties by the Bank that belong to Management Board members amounted to € 0.2 million in December 2022 (2021: € 0.0 million). Turnover on guaranteed credit cards that belong to members of the Supervisory Board amounted to € 0.0 million in December 2022 (2021: € 0.0 million).

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to € 1.1 million in 2022 (2021: € 0.9 million). Works Council delegates to the Supervisory Board do not receive any incremental remuneration. Remuneration of members of the Supervisory Board of BAWAG Group AG amounted to € 0.4 million (2021: € 0.3 million).

There were no consulting expenses in 2022 or 2021.

Pension payments to former members of the Management Board and their surviving dependents came to € 1.4 million (2021: € 1.5 million).

Expenditures for severance pay for former members of the Management Board came to € 0.0 million (2021: € 0.0 million).

Long-term incentive program

LTIP 2025

In January 2022, the Nomination and Remuneration Committee of BAWAG established a new long-term incentive program (“BAWAG LTIP 2025”). The purpose of the BAWAG LTIP 2025 is to retain key personnel (*retention aspect*) and to effectively align the interests of participants with the long-term performance of BAWAG Group by considering BAWAG’s externally communicated multi-year performance targets until 2025 (*interest alignment aspect*). The awards under the BAWAG LTIP 2025 will, subject to certain conditions as outlined below, be delivered in the form of ordinary shares of BAWAG Group AG (no phantom shares) in 2026 and 2027.

The vesting conditions comprise the following:

- Retention condition: In light of the retention aspect of the BAWAG LTIP 2025, participants are required to be employed in good standing at the beginning of 2026.

- Performance condition: Those externally communicated targets of BAWAG Group until 2025 which are specified below.

- Regulatory vesting requirement: Regulatory vesting requirements in accordance with the applicable regulatory framework (e.g. no malus is applied to the individual or to all BAWAG LTIP 2025 participants, vesting is sustainable according to the financial and risk situation of BAWAG Group).

Details on performance conditions

In order to effectively align the interests of participants of the BAWAG LTIP 2025 with the long-term performance of BAWAG Group, the performance conditions are tied to the externally communicated multi-year performance targets until 2025. They consist of financial and non-financial/ESG targets which are split as follows:

Financial targets	70%	Non-financial/ESG targets	30%
Profit before tax target ("PBT") >€ 750 million	30%	CO2 emission target >50% reduction	10%
Earnings per share target ("EPS") >€ 7.25	20%	Women quota target	10%
Dividend per share target ("DPS") >€ 4.00	20%	*Supervisory Board (33%)*	5%
		Senior Leadership Team (33%)	5%
		Green lending business target	10%

Further terms (conditional delivery of shares [vesting of award] / retention period)

Subject to the vesting conditions as outlined above, 88% of the BAWAG LTIP 2025 award will be delivered in early 2026 and 12% of the BAWAG LTIP 2025 award shall be delivered in early 2027. Upon delivery of the shares, the shares will remain subject to retention during a period in accordance with applicable regulatory requirements, which currently stands at one year (one-year retention period).

The financial and non-financial/ESG targets are deemed fulfilled if all financial targets or all non-financial/ESG targets are met at any financial year-end (i.e. year-end 2022/23/24). The assessment of whether and to what extent the vesting conditions (including the performance targets) under the BAWAG LTIP 2025 have been fulfilled will be carried out by the Nomination and Remuneration Committee of BAWAG.

Accounting

LTIP 2025 represents an equity-settled share-based payment transaction that is accounted for in compliance with IFRS 2.

The following awards have been granted within the LTIP 2025 program:

	Number of shares	Fair value in € million	Fair value per share at the grant date
Granted as of 31.12.2022	678,632	24.7	36.47

The following table shows an overview of the shares awarded per group of beneficiaries:

Group of beneficiaries	Number of shares awarded	Maximum number of shares to be actually allocated	Minimum number of shares to be actually allocated	Number of shares actually allocated on grant date
Members of the Management Board				
Anas Abuzaakouk	104,333	104,333	–	–
Guido Jestädt	25,080	25,080	–	–
David O'Leary	62,199	62,199	–	–
Sat Shah	78,250	78,250	–	–
Enver Sirucic	70,224	70,224	–	–
Andrew Wise	72,231	72,231	–	–
Members of Senior Leadership Team	266,315	266,315	–	–
Total	**678,632**	**678,632**	**–**	**–**

Valuation

BAWAG Group used the fair value of the equity instruments granted to measure the fair value of the services received from its employees.

The fair value of the equity instruments at the grant date was based on the observable market price of BAWAG Group AG shares on 24 January 2022. An adjustment for expected dividends was incorporated into the measurement of fair value.

For the LTIP 2025 program, no market and non-vesting conditions were defined.

Non-market performance conditions (including service conditions and non-market financial performance conditions) are not taken into account when measuring the grant date fair value of equity instruments. Instead, those are taken into account by adjusting the number of equity instruments included in the measurement of the transaction.

Accounting for cancellations

If a grant of equity instruments (equity-settled share-based payment) is canceled or settled during the period between granting and vesting, the cancellation or settlement is accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. Any payment made to the employee on the cancellation or settlement of the grant is accounted for as a deduction from equity. If the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date, the exceeding amount is recognized as an expense.

Amounts recognized in the consolidated financial statements

The services received in an equity-settled share-based payment transaction are recognized as the services are received, with a corresponding increase in equity.

The following amounts have been recognized in the Profit or Loss Statement for the period:

in € million	2022	2021
Expenses for equity-settled share-based payments	6.2	–
Thereof relating to		
Members of the Management Board	3.8	–
Members of Senior Leadership Team	2.4	–

LTIP 2018–2020

Shares of the LTIP 2018–2020 program were granted in early 2018 by BAWAG Group. As of the balance sheet date, all performance conditions have been fulfilled and the service period has expired. The program ended in 2021. No expense has been recognized in the 2022 consolidated financial statements.

Amounts recognized in the consolidated financial statements

The services received in an equity-settled share-based payment transaction are recognized as the services are received, with a corresponding increase in equity.

The following amounts have been recognized in the Profit or Loss Statement for the period:

in € million	2022	2021
Expenses for equity-settled share-based payments	-	1.1
Thereof relating to		
Members of the Management Board	-	0.7
Former members of the Management Board	-	0.1
Members of the Senior Leadership Team	-	0.3

in € million	2022	2021
Expenses/Income from cash-settled share-based payments	-	0.3
Thereof relating to		
Members of the Management Board	-	0.0
Members of the Senior Leadership Team	-	0.0
Members of the Management Board	-	0.3

Liabilities from cash-settled share-based payments resulting from the LTIP program amounted to € 0.4 million as of 31 December 2022 (31 December 2021: € 0.9 million).

Annual bonus program

Annual bonus awards are granted to selected employees and Management Board members. The bonus of this group is based on the annual result and defined internal targets. If the individual bonus exceeds a certain limit, 50% of the bonus is paid in cash and 50% in the form of BAWAG Group AG phantom shares. Bonus programs include entitlements to phantom dividends which are included in determining the required provision.

All expected bonus allocations for employees that are granted for services rendered in 2022 were taken into account in the consolidated financial statements as of 31 December 2022 by recognition of a provision.

Employee participation

In the second quarter 2022, an employee stock option plan was adopted. Under this program, all entitled employees of BAWAG Group received 25 shares of BAWAG Group AG. A total of 64,675 shares with a value of € 2.5 million were transferred to the employees of BAWAG Group.

In September 2022, an additional employee stock option plan in the form of a matching program was adopted. Under this program, all entitled employees of BAWAG Group received one share of BAWAG Group AG for every three shares they have acquired within a predefined period. As part of the matching program, a total of 19,427 shares with a value of € 0.9 million were transferred to the employees of BAWAG Group.

Business relations with related party individuals

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

	Key management of the entity or its parent	Other related parties[2]	Key management of the entity or its parent	Other related parties[2]
in € million	**31.12.2022**	**31.12.2022**	31.12.2021	31.12.2021
Current account deposits	7	0	7	–
Savings deposits	1	1	0	–
Loans	36	2	10	–
Building savings deposits	–	–	–	0
Leasing	–	–	0	0
Securities[1]	3	0	2	–
Interest income	0.1	0.0	0.1	–
Interest expense	0.0	0.0	0.0	0.0

1) Key management includes related trusts.
2) With respect to Key management.

	Key management of the entity or its parent	Other related parties[2]	Key management of the entity or its parent	Other related parties[2]
Number of shares	**31.12.2022**	**31.12.2022**	31.12.2021	31.12.2021
Shares of BAWAG Group AG[1]	2,609,750	55,200	2,337,644	249,064

1) Key management includes related trusts.
2) With respect to Key management.

37 | Changes in the Group's holdings

In the first quarter 2022, Leasing-west GmbH and SWBI Stuttgart 1 GmbH were deconsolidated due to immateriality. MF BAWAG Blocker LLC, Wilmington, was dissolved and stricken from the companies register on 1 March 2022.

In the second quarter 2022, Austwest Anstalt was deconsolidated due to immateriality.

By resolution dated 22 November 2021, the Annual General Meeting of BAWAG P.S.K. AG approved the cross-border merger of DEPFA BANK plc as the transferring company with BAWAG P.S.K. AG as the acquiring company in accordance with the provisions of the joint merger plan dated 22 November 2021.

Due to the merger of BAWAG P.S.K. AG with DEPFA BANK plc, BAWAG P.S.K. AG became the sole owner of DEPFA ACS Bank DAC. Therefore, by resolution dated 22 November 2021, the Annual General Meeting of BAWAG P.S.K. AG approved the cross-border merger of DEPFA ACS Bank DAC as the transferring company with BAWAG P.S.K. AG as the acquiring company in accordance with the provisions of the joint merger plan dated 22 November 2021.

The cross-border merger was carried out in accordance with the Austrian EU Merger Act and was filed with the Commercial Register Court. The merger was registered on 8 and 9 July 2022, respectively.

In the fourth quarter 2022, BAWAG P.S.K. Kommerzleasing GmbH was deconsolidated due to immateriality.

38 | Assets pledged as collateral

in € million	31.12.2022	31.12.2021
Receivables and securities assigned to Oesterreichische Kontrollbank AG	111	127
Collateral pledged to the European Investment Bank	97	103
Cover pool for trust savings deposits	105	118
Cover pool for covered bonds	10,927	8,733
Collateral for tender facilities	6,086	8,252
Cash collateral for derivatives	1,010	126
Other collateral	67	98
Assets pledged as collateral	**18,403**	**17,557**

The Group pledges assets for repurchase agreements that are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities. Receivables and securities are also pledged to Oesterreichische Kontrollbank AG in connection with export financing.

Pledges for trust savings deposits are conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG). Additionally, relevant collateral was provided for refinancing through the European Investment Bank.

39 | Total collateralized debt

The collateral listed in the table above corresponded to the following payables of BAWAG Group:

in € million	31.12.2022	31.12.2021
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	117	127
Payables arising due to refinancing by the European Investment Bank	36	38
Trust savings deposits	91	1
Payables secured by the cover pool for covered bonds	8,870	5,376
Tender facilities	5,279	6,289
Negative market values of derivatives	880	134
Other collateral	63	77
Total collateralized debt	**15,336**	**12,042**

40 | Genuine repurchase agreements

in € million	31.12.2022	31.12.2021
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	394	–
Repurchase agreements	**394**	**–**

41 | Transferred assets that are not derecognized in their entirety

in € million	31.12.2022	31.12.2021
Carrying amount of transferred assets[1)]	430	–
Carrying amount of associated liabilities	394	–

1) All of the transferred assets are bonds (at amortized cost: € 409 million; at fair value through other comprehensive income: € 21 million).

Transferred assets that are not derecognized in their entirety relate to genuine repurchase agreements. Since BAWAG Group is still the owner of the transferred assets, it remains exposed to market, interest rate, currency and credit risk with regard to these assets. The transferred assets are blocked for sale and are not taken into account in the liquidity calculation.

42 | Subordinated assets

Line items on the assets side of the Statement of Financial Position included the following subordinated assets:

in € million	31.12.2022	31.12.2021
Subordinated assets designated at fair value through profit or loss	4	27
Subordinated assets at fair value through other comprehensive income	16	20
Subordinated assets	**20**	**47**

43 | Offsetting financial assets and financial liabilities

BAWAG Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are generally aggregated into a single net amount that is payable by one party to the other. Under certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG Group currently does not have any legally enforceable right to offset recognized amounts because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

The disclosures in the tables below include financial assets and financial liabilities that:

- are offset in BAWAG Group's Statement of Financial Position; or
- are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

31.12.2022 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
Derivatives (excl. hedging derivatives)	156	–	156	104	33	19
Hedging derivatives	338	–	338	197	138	3
Loans to and receivables from customers	185	147	38	–	–	38
Total	**679**	**147**	**532**	**301**	**171**	**60**

31.12.2021 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
Derivatives (excl. hedging derivatives)	257	–	257	22	167	68
Hedging derivatives	178	–	178	(73)	251	–
Loans to and receivables from customers	221	168	53	–	–	53
Total	**656**	**168**	**488**	**(51)**	**418**	**121**

Financial liabilities

31.12.2022 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	692	–	692	96	561	35
Hedging derivatives	245	–	245	(61)	303	3
Repo transactions	–	–	–	–	–	–
Customer deposits	147	147	–	–	–	–
Total	**1,084**	**147**	**937**	**35**	**864**	**38**

31.12.2021 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	301	–	301	188	82	31
Hedging derivatives	107	–	107	65	39	3
Repo transactions	–	–	–	–	–	–
Customer deposits	168	168	–	–	–	–
Total	**576**	**168**	**408**	**253**	**121**	**34**

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

31.12.2022 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	156	–	156
Hedging derivatives	Hedging derivatives	338	–	338
Loans to and receivables from customers	Loans to and receivables from customers	35,763	35,725	38
Total		**36,257**	**35,725**	**532**

31.12.2021 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	257	–	257
Hedging derivatives	Hedging derivatives	178	–	178
Loans to and receivables from customers	Loans to and receivables from customers	34,963	34,910	53
Total		**35,398**	**34,910**	**488**

Financial liabilities

31.12.2022 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	692	–	692
Hedging derivatives	Hedging derivatives	245	–	245
Repo transactions	Financial liabilities associated with transferred assets	–	–	–
Customer deposits	Deposits from customers	34,288	34,288	–
Total		**35,225**	**34,288**	**937**

31.12.2021 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	301	–	301
Hedging derivatives	Hedging derivatives	107	–	107
Repo transactions	Financial liabilities associated with transferred assets	–	–	–
Customer deposits	Deposits from customers	35,148	35,148	–
Total		**35,556**	**35,148**	**408**

44 | Contingent assets, contingent liabilities and unused lines of credit

in € million	**31.12.2022**	31.12.2021
Contingent liabilities	**166**	**229**
Arising from guarantees	166	229
Unused customer credit lines	**9,267**	**9,295**
Thereof terminable at any time and without notice	7,198	7,427
Thereof not terminable at any time	2,069	1,868

Due to the acquisition of Südwestbank, BAWAG Group has, according to paragraph 5 section 10 of the statutes of the deposit protection fund, committed to release the Association of German Banks (Bundesverband deutscher Banken e. V.), Berlin, from any potential losses that might arise due to actions supporting credit institutions that are controlled by BAWAG Group or where BAWAG Group owns a majority stake. The Group does not expect any payments resulting from this guarantee at this time. Furthermore, the Austrian banks in BAWAG Group have an obligation arising from their membership in the deposit guarantee scheme as required by sections 93 and 93a of the Austrian Banking Act and the Deposit Guarantee and Investor Compensation Act (ESAEG). BAWAG is a member of the deposit guarantee scheme "Einlagensicherung AUSTRIA Ges.m.b.H." ("ESA").

45 | Foreign currency amounts

BAWAG Group had assets and liabilities in the following foreign currencies:

in € million	31.12.2022	31.12.2021
USD	5,783	5,225
CHF	913	1,038
GBP	1,150	1,378
Other	538	284
Foreign currency	**8,384**	**7,925**
EUR	**48,139**	**48,400**
Total assets	**56,523**	**56,325**
USD	458	361
CHF	374	57
GBP	48	33
Other	168	175
Foreign currency	**1,048**	**626**
EUR	**55,475**	**55,699**
Total liabilities	**56,523**	**56,325**

This table only includes Statement of Financial Position items and does not provide information about open currency positions due to off-balance hedging transactions.

46 | Information about geographical areas – Non-current assets

in € million	31.12.2022	31.12.2021
Austria	763	819
Western Europe	153	188
Total	**916**	**1,007**

Non-current assets consist of the balance sheet items Property, plant and equipment, Investment properties, Goodwill, Brand name and customer relationships, Software and other intangible assets, Associates recognized at equity and Other assets with a remaining maturity of more than one year.

47 | Leasing

Finance leasing from the view of BAWAG Group as lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG Group leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

31.12.2022 in € million	Up to 1 year	1–5 years	Over 5 years	**Total**
Total outstanding leasing installments (gross investment value)	519	1,125	43	1,687
As yet unrealized financial income	41	86	5	132
Receivables from finance leases (net investment value)	**478**	**1,039**	**38**	**1,555**

31.12.2021 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	442	1,251	58	1,751
As yet unrealized financial income	31	66	4	101
Receivables from finance leases (net investment value)	**411**	**1,185**	**54**	**1,650**

As of 31 December 2022, the non-guaranteed residual value amounts to € 13 million (2021: € 19 million).

Impairments in the amount of € 10.7 million were recognized in respect of irrecoverable minimum lease installments (2021: € 12.2 million).

Operating leasing from the view of BAWAG Group as lessee

BAWAG Group leases office premises, branches, equipment and vehicles under various rental agreements. The lease contracts are concluded under standard terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

As of 31 December 2022, the right-of-use assets amount to € 178.4 million (2021: € 190.3 million). Of this amount, € 177.0 million (2021: € 188.5 million) are presented within property, plant and equipment and € 1.4 million (2021: € 1.8 million) are presented within receivables from customers at amortized cost. The following table presents the development of the right-of-use assets by asset classes:

31.12.2022 in € million	Land and buildings	Office furniture and equipment	**Total**
Carrying amount 01.01.2022	**189.2**	**1.0**	**190.3**
Additions	2.1	0.8	2.3
Disposals	(0.4)	(0.2)	(0.4)
Reassessments and modifications	9.7	0.0	10.0
Depreciation	(23.3)	(0.5)	(23.8)
Carrying amount 31.12.2022	**177.3**	**1.1**	**178.4**
thereof property, plant and equipment	175.9	1.1	177.0
thereof lease receivables	1.4	0.0	1.4

31.12.2021 in € million	Land and buildings	Office furniture and equipment	Total
Carrying amount 01.01.2021	**222.7**	**1.0**	**223.7**
Additions	7.3	0.8	8.1
Disposals	(0.8)	(0.2)	(1.0)
Reassessments and modifications	(15.2)	0.0	(15.2)
Depreciation	(24.8)	(0.5)	(25.3)
Carrying amount 31.12.2021	**189.2**	**1.1**	**190.3**
thereof property, plant and equipment	187.4	1.1	188.5
thereof lease receivables	1.8	0.0	1.8

Since 1 January 2022, an addition to the right-of-use assets was recognized in the amount of € 2.3 million (2021: € 8.1 million). This results from new leases of real estate.

As of 31 December 2022, the lease liability amounts to € 191.9 million (2021: € 208.7 million) and is presented within other obligations. The following table presents a maturity analysis of the lease liability:

in € million	31.12.2022	31.12.2021
Up to 1 year	27.9	26.8
1–5 years	73.3	79.4
Over 5 years	90.7	102.5
Total lease liability	**191.9**	**208.7**

The following table presents the impact of IFRS 16 on profit or loss:

in € million	2022	2021
Depreciation of right-of-use assets	23.8	25.3
Land and buildings	23.3	24.8
Office furniture and equipment	0.5	0.5
Interest expense on lease liabilities	2.4	2.5
Expenses relating to short-term leases	0.8	0.3
Expenses relating to low-value assets	0.2	0.2
Expenses relating to variable lease payments independent from an index or rate	0.0	0.0
Total	**27.2**	**28.3**
Total rental payments for lease agreements	**(32)**	**(29)**
Rental income from subleasing right-of-use assets	**7**	**4**

In 2022, interest expenses in the amount of € 2.4 million (2021: € 2.5 million) and depreciation in the amount of € 23.8 million (2021: € 25.3 million) were recorded due to the adoption of IFRS 16.

48 | Derivative financial transactions

Derivative financial transactions as of 31.12.2022

31.12.2022 in € million		Nominal amount/maturity[1)] Up to 1 year	1–5 years	Over 5 years	Total	Fair value[1)] Positive	Negative
Interest rate related business		**17,296**	**28,150**	**27,902**	**73,348**	**140**	**(796)**
Thereof	interest rate swaps banking book	17,281	27,957	27,434	72,672	135	(781)
	interest rate options banking book	15	193	468	676	4	(14)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		**3,390**	**4,260**	**3,018**	**10,668**	**351**	**(136)**
Thereof	currency swaps banking book	762	3,705	3,018	7,485	278	(69)
	foreign currency forward transactions and options banking book	2,628	555	–	3,183	74	(67)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	–	–	–	–	–	–
Securities related business		**89**	**325**	**17**	**431**	**4**	**(5)**
Thereof	securities related business banking book	89	325	17	431	4	(5)
Total		**20,775**	**32,735**	**30,937**	**84,447**	**495**	**(937)**
Thereof	banking book business	20,775	32,735	30,937	84,447	495	(937)
	trading book business	–	–	–	–	–	–

1) Banking book derivatives include fair value hedging, cash flow hedging and net investment hedging instruments.

The table above includes the following figures for fair value hedges, cash flow hedges and net investment hedges:

31.12.2022 in € million		Nominal amount/maturity Up to 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Interest rate related business	Fair value hedge – interest rate risk	3,806	15,208	16,724	35,738	23	(150)
Currency related business	Cash flow hedge – FX risk	700	4,260	3,018	7,978	304	(93)
Currency related business	Net investment hedge – FX risk	175	–	–	175	11	(2)
Total		**4,681**	**19,468**	**19,742**	**43,891**	**338**	**(245)**

Derivative financial transactions as of 31.12.2021

31.12.2021 in € million		Nominal amount/maturity[1)] Up to 1 year	1–5 years	Over 5 years	Total	Fair value[1)] Positive	Negative
Interest rate related business		**8,293**	**25,459**	**23,992**	**57,744**	**378**	**(178)**
Thereof	interest rate swaps banking book	7,967	25,272	23,487	56,725	363	(139)
	interest rate options banking book	326	187	506	1,019	15	(38)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		**4,394**	**3,586**	**2,870**	**10,851**	**47**	**(217)**
Thereof	currency swaps banking book	667	3,284	2,870	6,822	5	(163)
	foreign currency forward transactions and options banking book	3,727	302	–	4,029	42	(54)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	–	–	–	–	–	–
Securities related business		**35**	**400**	**31**	**466**	**9**	**(13)**
Thereof	securities related business banking book	35	400	31	466	9	(13)
Total		**12,722**	**29,445**	**26,894**	**69,061**	**435**	**(408)**
Thereof	banking book business	12,722	29,445	26,894	69,061	435	(408)
	trading book business	–	–	–	–	–	–

1) Banking book derivatives include fair value hedging and cash flow hedging instruments.

The table above includes the following figures for fair value hedges and cash flow hedges:

31.12.2021 in € million		Nominal amount/maturity				Fair value	
		Up to 1 year	1–5 years	Over 5 years	**Total**	Positive	Negative
Interest rate related business	Fair value hedge – interest rate risk	992	12,155	14,608	27,756	169	(17)
Currency related business	Cash flow hedge – FX risk	670	2,022	2,520	5,212	9	(87)
Currency related business	Net investment hedge – FX risk	139	–	–	139	0	(3)
Total		**1,801**	**14,178**	**17,128**	**33,107**	**178**	**(107)**

49 | List of consolidated subsidiaries

		31.12.2022		31.12.2021
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
DEPFA ACS BANK DAC, Dublin	–	–	F	100.00%
DEPFA BANK plc, Dublin	–	–	F	100.00%
start:bausparkasse AG, Hamburg	F	100.00%	F	100.00%
start:bausparkasse AG, Vienna	F	100.00%	F	100.00%
Real estate				
Dromalane Mill Limited, Newry[1)]	F	0.00%	F	0.00%
Fairgreen Shopping Centre (Carlow) Limited, Dublin[1)]	F	0.00%	F	0.00%
GEI Newry Ltd, Newry[1)]	F	0.00%	F	0.00%
Promontoria Holding 136 B.V., Amsterdam	F	100.00%	F	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	–	–	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%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BFL Leasing GmbH, Eschborn	F	100.00%	F	97.87%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
easyleasing GmbH, Vienna	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
Leasing-west GmbH, Rosenheim	–	–	F	100.00%
Morgenstern Miet + Leasing GmbH, Eschborn	F	95.00%	F	92.98%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%

Other non-credit institutions				
AUSTWEST ANSTALT in Liquidation, Triesen	–	–	F	100.00%
BAWAG Education Trust, Wilmington	F	100.00%	F	100.00%
BAWAG Group Germany GmbH, Eschborn	F	100.00%	F	100.00%
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
Bonnie RE UK 1 B.V., Amsterdam	F	100.00%	F	100.00%
BPI Holding GmbH & Co KG., Vienna	F	100.00%	F	100.00%
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	F	100.00%
BVV Cayman Ltd., George Town	F	100.00%	F	100.00%
E2E Services GmbH, Vienna (formerly: E2E Service Center Holding GmbH, Vienna)	F	100.00%	F	100.00%
BAWAG Services GmbH, Vienna (formerly: E2E Transaktionsmanagement GmbH, Vienna)	F	100.00%	F	100.00%
FCT Pearl, Pantin	F	100.00%	F	100.00%
Garrison Earlsfort Investments 2 DAC, Newry[1)]	F	0.00%	F	0.00%
Health Coevo AG, Hamburg	F	100.00%	F	100.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
MF BAWAG Blocker LLC, Wilmington	–	–	F	100.00%
PFH Properties Funds Holding GmbH, Vienna	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	E	20.82%
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
SWB Immowert GmbH, Stuttgart	F	100.00%	F	100.00%
Zahnärztekasse AG, Wädenswil	F	100.00%	F	100.00%

F … Full consolidation, E … Equity method
1) Consolidated according to IFRS 10 due to materiality.

Material subsidiaries are fully consolidated on the basis of IFRS 10, whereas material associates are accounted for using the equity method according to IAS 28.

Subsidiaries are entities that BAWAG Group controls in accordance with IFRS 10. BAWAG Group controls an entity when it is exposed or has rights to variable returns from its involvement with a subsidiary and has the ability to influence those returns through its power over the subsidiary.

Associates in accordance with IAS 28 are all entities over which BAWAG Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

The classification of whether a subsidiary/associate is material is reviewed once a year.

50 | List of subsidiaries and associates not consolidated due to immateriality

	31.12.2022	31.12.2021
Real estate		
N & M Immobilienentwicklungs GmbH, Vienna	100.00%	100.00%
LSREF3 Tiger Aberdeen S.a.r.l., Luxembourg	100.00%	100.00%
LSREF3 Tiger Falkirk I S.a.r.l., Luxembourg	100.00%	100.00%
LSREF3 Tiger Falkirk II S.a.r.l., Luxembourg	100.00%	100.00%
LSREF3 Tiger Gloucester S.a.r.l., Luxembourg	100.00%	100.00%
LSREF3 Tiger Romford S.a.r.l., Luxembourg	100.00%	100.00%
LSREF3 Tiger Southampton S.a.r.l., Luxembourg	100.00%	100.00%
SWBI Mainz 1 GmbH, Stuttgart	–	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	100.00%	–
SWBI Stuttgart 2 GmbH, Stuttgart	–	100.00%
SWBI Stuttgart 3 GmbH, Stuttgart	–	100.00%
Leasing		
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	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	100.00%	100.00%
Leasing-west GmbH, Rosenheim	100.00%	–
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non-credit institutions		
AUSTOST ANSTALT, Balzers	100.00%	100.00%
AUSTWEST ANSTALT in Liquidation, Triesen	100.00%	–
BFL Vertriebspartner BeteiligungsgesmbH, Eschborn	–	73.36%
Depfa Ireland Holding Limited, Dublin	100.00%	100.00%
BAWAG Group Advisors GmbH, Vienna	–	100.00%
BAWAG Group Advisors International GmbH, Eschborn	100.00%	100.00%
Fingorilla GmbH in Liqu., Vienna	70.00%	70.00%
Finventum GmbH, Munich	–	49.00%
Finventum IT GmbH, Vienna	–	49.00%
FlexSi Finanz Vermittlungsgesellschaft m.b.H., Hamburg	100.00%	100.00%
Granite GmbH, Vienna	100.00%	–
Gyle Holding GmbH (formerly: RF zwölf BAWAG Leasing Gesellschaft m.b.H.), Vienna	100.00%	100.00%
Gyle JVCo Limited, London	50.00%	–
Huckleberry Merger Sub Inc., Delaware	100.00%	–
Octantos Beteiligungsverwaltungs GmbH, Vienna	100.00%	100.00%
Omnicas Management AG, Wädenswil	–	100.00%
ROMAX Immobilien GmbH, Vienna	100.00%	100.00%
Savity Vermögensverwaltungs GmbH, Vienna	–	49.00%
Tiger Retail UK RE 1 S.a.r.l., Luxembourg	100.00%	100.00%
Tiger Retail UK RE 2 S.a.r.l., Luxembourg	100.00%	100.00%
Universa Protection Protocol XLII L.P., Miami	–	100.00%
Universa Protection Protocol Offshore LXVI LP, George Town	100.00%	–
US REO Trust, Wilmington	100.00%	–
Vertiva Family Office GmbH, Stuttgart	–	100.00%

51 | Associates not accounted for using the equity method due to immateriality

The following table shows key financial indicators for the Bank's unconsolidated associates:

in € million	31.12.2022	31.12.2021
Cumulated assets	152	50
Cumulated equity	(22)	2
Cumulated net profit	(18)	0

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG Group as of 31 December 2022 were being prepared, financial statements as of 31 December 2021 were available for the majority of the respective entities (prior year: 31 December 2020).

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 45% (2021: 49%).

For further details, please refer to Note 36 Related parties.

52 | Involvement with associated companies

Investments in associates disclosed in this note are accounted for using the equity method. BAWAG Group includes two companies that are accounted for using the equity method: BAWAG P.S.K. Versicherung AG, Vienna, and PSA Payment Services Austria GmbH, Vienna. The table below presents aggregated financial information on the Group's share in associates that are considered to be immaterial compared to the Group's total assets and profit or loss.

in € million	31.12.2022	31.12.2021
Carrying amounts of all associates	25	42
Aggregated amount of the Group's share of profit or loss	2.7	3.8
Aggregated amount of the Group's share of other comprehensive income	(17.5)	(2.5)
Aggregated amount of the Group's share of total comprehensive income	(14.8)	1.3

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 determining control over the entity. This is the case, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

- Restricted activities
- A narrow and well-defined objective
- Insufficient equity
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements or other means. The Group's exposure to unconsolidated structured entities comprises leasing companies engaging in special leasing to which BAWAG Group provides the financing.

The Group provides a different measure for the size of structured entities depending on their nature. Regarding other structured entities, the total assets of these entities in the amount of € 75 million (2021: € 80 million) best measure their size. For securitizations, this is the notional of notes in issue in the amount of € 1,166 million (2021: € 759 million). For other special purpose vehicles, this is the financing amount of € 489 million (2021: € 69 million).

The table below shows an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

in € million	2022	2021
Carrying amounts of assets in connection with investments in structured entities	**1,689**	**867**
on the balance sheet shown under At amortized cost	1,689	867
Carrying amounts of liabilities in connection with investments in structured entities	**–**	**–**
Income	**12.0**	**7.5**
Interest income	12.0	7.5
Losses incurred during reporting period	–	–
Maximum exposure to loss	1,689	867

BAWAG Group neither provided any financial or other support to an unconsolidated securitization vehicle during the financial year nor does it have any current intention to do so.

RISK REPORT

BAWAG Group has a low-risk, simplified and transparent business model built through a consistent strategy over many years. We concentrate on developed markets with strong banking and legal infrastructures, primarily the DACH/NL region, Western Europe and the United States. We specialize in retail banking activities and serve customers with comprehensive savings, lending, investment and bank-assurance products. Our liquidity is primarily provided by stable retail deposits. Simplicity and efficiency are the foundation of our operations, in which we simplify processes from end to end in order to provide our customers with clarity, ease and value through our products.

In addition to our low-risk business model, risk management and the active steering of risks are primary components of the Group's business strategy. "Safe and Secure" is a core pillar of our strategy and there is a high level of commitment across the entire organization to manage the Bank according to a low risk profile. We believe our risk management approach is a differentiator in our market and is key to achieving our strategic and financial objectives as well as creating value for our shareholders and protecting our customers.

Safe and Secure is a cornerstone of our Group strategy and our risk policies and governance. It is founded on the following tenets:

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

2022 summary

- The 2022 macroeconomic environment was characterized by continuing uncertainty driven by the positive emergence from the pandemic and removal of restrictions for our economies, which collided with the geopolitical shock from the breakout of the Russia-Ukraine war. The conflict compounded significant effects across the global landscape, including peaks in consumer prices and disruptions in the energy supply, creating global inflationary forces unseen for many years. In reaction to this inflationary impact, central banks reversed economic policy by tightening the monetary supply and implementing interest rate hikes in 2022, which are expected to be followed by further increases in 2023 to bring inflation back to the targeted ranges. The intent of the increased interest rates is to slow economic activity and demand for goods and services, thereby reducing inflation in our economies. After decades of low interest rates and lenient central bank monetary policies, such an unprecedented shift creates the risk of economic shocks and recession for our customers and markets.

- We have no direct exposure to Russia or Ukraine and de minimis exposure to Eastern Europe, reflecting our strategic focus towards the DACH/NL region, Western Europe and the United States over the past decade. While our exposures to clients that are indirectly impacted by the crises (e.g. supply chain or sales networks) are de minimis, we will continue to remain cautious, prudent and closely monitor our exposures and actively reach out to the clients to minimize any stress that may arise from secondary impacts.

- ECL reserves have increased by 29% to € 180 million (2021: € 139 million) driven by increases to management overlay reserves to account for economic uncertainty in addition to our modeled economic scenarios.

- Management overlay in excess of modeled reserves increased in 2022 to € 100 million (2021: € 61 million), which constitutes approximately one year of normalized risks costs. BAWAG will continue to monitor potential economic development in light of the continuing uncertainty and revisit management overlay assumptions and needs regularly.

- High asset quality demonstrated by continued high share of 93% (2021: 94%) of customer book in Stage 1 (performing) and 5% (2021: 4%) in Stage 2 (performing, but increased credit risk). BAWAG's Stage 2 assets remain low as a share of our total book, reflecting the resilient underwriting standards.

- NPL ratio decreased to 0.9% (2021: 1.4%) with NPL cash coverage of 52% (2021: 56%) and NPL coverage ratio improving to 82% (2021: 79%).

- The City of Linz receivable was written off in full in 2022. In August, the Austrian Supreme Court ruled that the swap contract concluded between BAWAG and the City of Linz 15 years ago was invalid. As a result of the ruling, we took a pre-tax write-off of € 254 million, equal to a € 190 million impact after tax, related to the City of Linz receivable on the balance sheet.

- Annual risk costs of € 122 million (2021: € 95 million) excluding City of Linz write-off of € 254 million represent an increase of 22% to 28 basis points (2021: 23 basis points). The increase was driven by management overlay contributions to increase ECL levels given heightened economic uncertainty. Underlying risk costs excluding the management overlay additions remained low at approximately 19 basis points annually (2021: 16 basis points), reflecting strong performance of the book.

- Robust liquidity at year-end with LCR of 225% (2021: 239%) and NSFR of 127% (2021: 139%), both of which are well above regulatory requirements.

- Exposure to industries with moderate-high to high ESG risk including high emissions industries and fossil fuel related exposures remains low (<2% of total). ESG risks are incorporated into the risk steering framework, risk strategy and internal capital allocation across risk types and risk management guidelines.

Development of key risk metrics

	Total book		
in € million	**31.12.2022**	31.12.2021	vpY
NPL ratio	0.9%	1.4%	(0.5)pp
NPL cash coverage ratio	52.3%	56.5%	(4.2)pp
NPL coverage ratio	82.5%	79.2%	3.3pp
Impairments Stage 1 and 2	179	139	40
Impairments Stage 3	263	276	(13)
LCR	225%	239%	(14.0)pp
NSFR	127%	139%	(12)pp

Risk statement

BAWAG Group is active in banking activities, focusing primarily on retail banking with a secondary focus on corporate banking and commercial real estate financing in selective markets which demonstrate adequate risk-adjusted returns. As such, the Bank takes on the typical risks inherent to the banking industry, as well as the economy in general.
BAWAG Group closely monitors and manages all such risks within a strict and comprehensive risk framework, with the intent to mitigate such risks as negative impacts may occur and ensure adequate levels of capital and liquidity.

BAWAG Group has established a comprehensive and forward-looking risk management framework, which considers the nature, scale and complexity of the Group's business activities and the resulting risks. The Group's risk management governance and oversight involves understanding drivers of risks, types of risks and impacts of risks. BAWAG Group's approach to risk, risk appetite and governance framework remained unchanged.

BAWAG Group's approach to risk

BAWAG Group's risk management framework is based on the following guiding principles:

- **Risk-conscious culture**: Risk management is a joint effort across business units and risk management divisions. We have established a risk-conscious mindset throughout the Group which ensures risk-based decision-making.

- **Prudent approach to risk and underwriting**: Our strategic commitment to maintaining a low risk profile is reflected in our focus on developed markets, our conservative underwriting with emphasis on secured business and risk-adjusted returns, a strong capital position, a stable retail-based funding model and the proactive mitigation of non-financial risks.

- **Integrated risk management**: We manage relevant risk categories on a Group-wide basis, ensuring a consistent and coherent approach towards our risk management activities throughout the Group.

- **Well-established risk governance**: The governance framework ensures a strict separation of business and risk functions at all organizational levels and contributes to the effective implementation and control of the Group's preferred risk appetite and strategy.

- **Effective risk analysis, management and reporting**: Comprehensive risk reporting together with sophisticated risk measurement and validation techniques covering all material risk types ensure the close monitoring and the early detection of emerging risks. Risk analysis is supplemented by a sound and comprehensive stress testing framework, allowing the targeted stressing of the Group's risk vulnerabilities.

The implemented risk management framework ensures the effective identification, measurement and management of risks across BAWAG Group and forms the basis for making informed, risk-based business decisions. It allows us to react quickly and proactively to market trends or other deteriorating developments as well as support the Bank's sustainable organic and inorganic growth within the overall risk appetite.

Risk appetite

BAWAG Group has implemented a clear risk strategy, which is fully aligned with the Group's overall business strategy. The Management Board defines and approves the overall risk appetite and risk strategy on an annual basis. This allows us to better manage our risks by explicitly expressing, both qualitatively and quantitatively, how much and what kind of risk we want to take. The overall risk appetite serves as a constraint and represents the Group's intention to use a defined extent of the available internal capital for risks viewed through regulatory and economic capital availability, liquidity position and profitability expectations. The risk strategy breaks the overall risk appetite down into more detailed risk categories and business level metrics and limits.

Governance framework

The established governance framework ensures the implementation of the Bank's risk strategy with the operational and strategic risk management functions and the relevant committees of BAWAG Group. The Group's approach to risk is founded through a coordinated control framework and administered through a strong risk management culture and structure. Governance is maintained through the delegation of authority from the board to individuals by way of the management hierarchy and supported by a committee-based structure to ensure sound decision-making and communications.

The Management Board is continuously informed on the overall risk situation and potential future developments. The management risk reporting is based on well-defined risk metrics and encompasses all Pillar I- and Pillar II-relevant topics (whereas Pillar I refers to the minimum regulatory capital requirements and Pillar II to the assessment of internal capital adequacy as defined by the Basel framework for covering all risks the Bank can potentially face beyond the minimum requirements). Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board. Risk management policies are regularly and rigorously reviewed to reflect anticipated adjustments to the business strategy, regulatory requirements and market conditions. Particular attention is paid to the need for adjustment following BAWAG Group's expansion strategy and environmental and sustainability objectives.

Emerging topics, risks and regulatory developments are proactively studied to assess potential impacts on policies and strategy, providing a separate channel of external inputs which continuously require risk management policies and frameworks to be reshaped.

The Chief Risk Officer (CRO) of BAWAG Group, together with the relevant risk management functions, is responsible for the implementation of and compliance with the defined risk strategy for all types of risk. This forms the independent risk management function.

The following divisions oversee the implementation and execution of risk-related guidelines (as of 31 December 2022):

- Risk Modelling
- Validation
- Commercial Risk Management
- Retail Risk Management
- Group Data Warehouse (joint reporting line to CRO and CFO)

In addition, the department Credit Risk Reporting is responsible for the Group's credit risk reporting. The department reports to the head of Commercial Risk and to the head of Retail Risk Management (dual report).

Effective compliance and risk management is a crucial aspect of a bank's success. In addition to the conventional risk types, we highlight that the management of non-financial risks, as well as environmental, social and corporate responsibility is prioritized through our ESG framework implemented group-wide. Therefore, an ESG framework was implemented within the group-wide (risk) organization.

BAWAG promotes a risk culture that considers climate-related and environmental risks. For this purpose, the Group has set up a governance structure to ensure that the identification, measurement, assessment, management and monitoring of ESG risks is fully integrated into the Group's risk management framework and is constantly being improved over time:

- Supervisory Board: ESG Committee
- Management Board: Non-Financial Risk and ESG Committee consisting of Management Board, ESG Officers and selective senior staff to decide on strategic ESG topics
- ESG Officers: ESG Officers from key functions covering Risk Management, Human Resources, Legal & Governance, Corporate Communications and Finance/Investor Relations
- Working groups: various working groups covering specific ESG topics

54 | Current geopolitical environment – impacts on risk management

The economic recovery that was under way as our markets emerged from the pandemic – with restrictions lifted in Q2 2022 in our core markets – was impeded by the breakout of the Russia-Ukraine conflict in February 2022. This and other geopolitical uncertainties (e.g. supply chain issues, China - Taiwan conflict) opened a new front of unprecedented events leading to uncertain economic consequences, and the need for continued crisis management, as well as a highly cautious and prudent risk management position. The current environment is characterized by:

- Inflation at 40-year high with impact on real income with increased cost of living, e.g. energy costs, food prices, mortgage rates significantly up
- War in Ukraine lacking transparency regarding potential spread and a foreseeable end
- Industry headwinds and declines in output due to supply chain issues and inflationary forces
- Negative effects from phasing out of pandemic fiscal support which helped to avoid insolvencies and to manage unemployment
- Tightening of monetary policy with central banks ending asset purchases and increasing base rates to slow inflation
- Increased likelihood of coming recession with economic slowdowns already evidenced. Central bank measures expected to negatively impact growth in addition to inflation

During the pandemic, risk management took proactive steps to address the continued disruptions of the economy and our customers, as well as integrate regulatory measures and programs to provide relief to our communities. Processes were designed to maintain the highest levels of transparency and monitoring rigor, measure underlying risk development and take action across company processes to manage risks on a real-time basis. This highly proactive risk management approach and granular focus to driving operations has become further institutionalized and is foundational in successfully navigating through the current uncertain environment. The discipline to continuously evaluate structured information detailing market developments, driving granular risk adjustments related to the underwriting of new business and continuous data updates to measure risk dynamics in our exposures serves as the management cycle for all risk-related decisions.

In the next section, the development and measures taken in connection with the crisis in the credit risk management processes are described:

- Governance
- Underwriting
- Impact analysis performed on current conflict
- Assessment of significant increases in credit risk and staging
- Macroeconomic scenarios/Forward-looking information
- Provisioning and management overlay

Governance
During the COVID-19 crisis, the risk management framework of BAWAG Group has demonstrated that it can seamlessly adapt its risk assessment, measurement and reporting to reflect the unprecedented impacts and fluid nature of the current situation, which is a testament to our robust risk infrastructure (IT, reporting, analytics) and governance framework.

Enhanced governance steps and frequencies were put into place to ensure immediacy of performance in areas of potential stress, unified responses across our operations and data-driven decisions. This setup and experience are critical to dealing effectively with the current crisis across all our markets and channels with the following actions and initiatives that have been taken or were continued:

- Recurring steering meetings with the Management Board and relevant divisions across the organization and markets to facilitate focused operational reviews, timely decision-making and prioritization for seamless operational execution
- Regular monitoring reports of key performance indicators (KPIs) of customer behavior across the credit risk lifecycle covering new business applications, revolving limit utilization, delinquencies and macro developments
- Relative market pricing with reviews of certain corporate sub-portfolios and regular outreach to financial sponsors or management to understand the latest position
- Extended risk reporting to provide up-to-date monitoring of the development of particular portfolios, customer groups and products affected by the current crisis
- Ongoing review of IFRS 9 provisions under various macroeconomic scenarios

Underwriting
BAWAG Group follows a conservative underwriting approach with clearly defined underwriting guidelines which focus on high levels of collateralization, debt service with cushions to absorb potential stress, income and capital metrics for risk-adjusted returns. Underwriting decisions are supported by strong risk analytics capabilities. This ensures a targeted review of risk appetite and execution of associated credit actions during the crisis to reflect any adverse macroeconomic environments. The underwriting parameters are stressed regularly to ensure cushions included in our credit metrics are sustainable.

Our strategy has been to focus our Retail & SME business mix towards asset-based secured products (primarily residential real estate and leasing), which amounts to 81% of the portfolio at year-end 2022 (2021: 86%). The remaining 19% (2021: 14%) of our portfolio is comprised of unsecured Retail & SME lending.

With regard to our unsecured Retail & SME lending, we have enhanced our stress resistance in the Retail & SME portfolio, as actions taken in early 2020 ensure Retail & SME customers have significant margins of cushion for payment coverages.

Measured by debt service to income, new loans require greater non-debt service spend cushion in order to absorb inflationary costs. This is already reflected in significantly lower 12-month delinquency rates for the consumer loan portfolio, reducing the risk profile as expected in the loans on the balance sheet.

Our portfolio in the current geopolitical environment

- No direct exposure including trade finance to Russian or Ukrainian companies (ultimate risk view)
- No exposure to sanctioned individuals/entities
- Close monitoring of developments and sanctions to ensure full and immediate implementation into risk policies/underwriting guidelines
- Neither maintaining nor conducting any securities brokerage, custody, settlement or clearing relationships with Russian/Ukrainian counterparties nor with corresponding subsidiaries
- No material exposure to Eastern Europe
- A small share of companies with at a total exposure below 1% of total assets with reliance on Russian markets (automotive, wood, gas), be it with local subsidiaries, clients or suppliers, under close monitoring but currently with no indication of elevated/unmitigable risk
- Less than 1% of total assets to energy-intensive industries (e.g. steel, cement, chemicals, building materials) – located in Austria and the US
- Exposure to energy supplliers is very low. Regional focus is on Austria and Germany. The financed companies benefit from strong public support through ownership and backing loan facilities

Measures to address the uncertainty in the current environment

The following measures were set to tackle the uncertainty of the impacts of the current environment (high inflation, interest rate increases, potential recession, supply chain issues, real estate price development, market volatility):

- Adjustments to the credit box for retail consumer and mortgage loans to reflect increasing housing costs as well as general inflationary, supply chain and interest rate impacts
- Commercial Underwriting Guidelines were adjusted, reflecting additional information and analysis needs to assess the impacts of current crisis in single deal underwriting
- An ECL overlay in the amount of € 100 million – already incorporating updated base and pessimistic macroeconomic scenarios into the model which the Bank expects to cover unforeseen recessionary impacts or negative crisis developments
- Stress testing of all deals and borrowers regarding interest rate increases in light of market volatility

Assessment of significant increases in credit risk and staging

Credit risk assessment and stage allocation is generally conducted at the individual customer level. Industry impacts are assessed on a Group basis and included in potential watchlist assessments. Within the established IFRS 9 ECL framework, all quantitative and qualitative criteria that indicate a significant increase in credit risk, such as an increase in probability of default (PD) as a result of deteriorating macroeconomic forecasts including a backstop criterion relative to stage transfer thresholds, 30 days past due backstop triggers, forbearance measures etc., remain fully applicable and were not amended or relaxed due to the ongoing crisis.

Macroeconomic scenarios/Forward-looking information

To determine stage allocation and expected credit loss, credit risk parameters are re-assessed applying forward-looking information derived from macroeconomic scenarios. BAWAG Group applies a 30% pessimistic, 40% baseline and 30% optimistic distribution of alternative scenarios. These are centered around the baseline scenario defined by the internal macroeconomic scenario committee, which analyzes and approves the macroeconomic forecast combining expert opinions, scenario analyses and economic forecasts. Among all variables, BAWAG Group uses the GDP growth as a main source of forward-looking information to consider in ECL estimates, with additional variables such as inflation, unemployment rate or housing prices in a complementary role.

Eurozone macroeconomic forecast considered for ECL

GDP growth 31.12.2022 in %	2022	2023	2024	2025
Optimistic (30% weight)	3.2	0.4	2.4	2.3
Baseline (40% weight)	3.2	(1.0)	2.1	2.8
Pessimistic (30% weight)	3.2	(3.5)	0.0	3.9

The pessimistic scenario assumes a rapid growth recession in the beginning of 2023 due to the effects of the energy crisis combined with a rapid tightening of monetary policy, followed by a gradual recovery in the next years. The forecasted level of GDP remains the lowest in the pessimistic scenario.

GDP growth 31.12.2021 in %	2021	2022	2023	2024
Optimistic (30% weight)	5.0	5.6	3.5	1.9
Baseline (40% weight)	5.0	3.8	2.7	2.1
Pessimistic (30% weight)	5.0	(0.4)	1.4	2.9

Provisioning and management overlay

BAWAG Group has taken measures to address the current uncertainty as a result of the crisis to ensure the appropriate and timely identification of distressed debtors and adequate levels of provisioning across all stages of credit risk.

The Bank maintains a comprehensive framework to determine IFRS 9 expected credit loss (ECL), which provides for future losses which have not yet occurred by identifying macro forecast influences, customers with higher risk profiles and ultimately customers with increased likelihood of payment defaults.

Models were adjusted and calibrated using the latest available historic data as well as macroeconomic forecasts. However, aftermath of the COVID-19 pandemic, followed by the Russia-Ukraine crisis, the world economy is shifting into a new phase with higher inflation and interest rates than at any time since the global financial crisis of 2008. In this context, entities may be adversely affected by rising prices of commodities such as oil and gas, or by a potential slowdown in the global economy. Moreover, the occurrence of large-scale business disruptions potentially gives rise to liquidity issues for certain entities. Consequently, there may also be serious impacts on the credit quality of entities along the supply chain.

Due to unprecedented events and actions impacting markets, as well as government support measures, identifying credit deterioration of borrowers in ECL models is becoming increasingly challenging. BAWAG Group estimates ECLs under IFRS 9 according to industry standards using historical data and relationships to develop judgements about future developments. BAWAG observed that historical relationships between key variables do not necessarily hold true, because comparable economic conditions have not existed in the past. Particularly effects from structural disruptions during the pandemic, government support actions followed by high inflation rates and steeply rising interest rates are still not evident in terms of impact on macroeconomic drivers and, ultimately, on default rates. This subsequently becomes apparent in the sensitivity of the respective risk parameters. Consequently, extreme economic conditions, coupled with uncertainty around the duration of the pandemic, potential for relapses, effects of government support and what the recovery will ultimately look like, mean that forward-looking judgements are highly uncertain and challenging to make. Therefore, BAWAG Group applies prudent and diligent post-model adjustments (PMA) to avoid failure in identifying deteriorating credit quality in a timely manner. In this context, the Bank applies both a quantitative (portfolio) and qualitative view in determining an adequate level for the post-model adjustments.

BAWAG assessed the adjustment on its Retail & SME segment on the portfolio level. This is due to the nature of the portfolio size (many customers with similar behavior, smaller ticket sizes, etc.) being collectively vulnerable to systematic risk effects. Therefore, the Bank considers reasonable and supportable information covering more severe future economic conditions when calculating ECLs on a portfolio basis. BAWAG Group uses the results of the internal ICAAP stress test (severe adverse scenario) to calculate risk costs and compares them against the baseline scenario. The Retail Risk division then applies an expert's judgement to correct for the identified biases as illustrated above as management overlay.

For its Corporates, Real Estate and Public Sector portfolio, BAWAG Group assesses the post-model adjustment for clients already in Stage 2 on a case-by-case basis using a qualitative analysis of the appropriateness of the ECL level and considers appropriate adjustments if needed individually. This is because of the characteristics of corporate borrowers (heterogeneity of customers, idiosyncratic aspects, etc.) being individually more vulnerable to systematic risk effects depending on individual circumstances.

BAWAG will continue to monitor the outlook and potential risks and act diligently in response to evolving economic and financial conditions.

Impact of management overlays on ECL

31.12.2022 in € million	Expected credit loss	Management overlay	Total
Impairments Stage 1	47	-	47
Impairments Stage 2	33	100	133
Total	**79**	**100**	**179**

31.12.2021 in € million	Expected credit loss	Management overlay	Total
Impairments Stage 1	37	-	37
Impairments Stage 2	41	61	102
Total	**78**	**61**	**139**

BAWAG Group is closely monitoring the further macroeconomic development in the markets we operate in. The release of the management overlay will be assessed when the volatility and uncertainty of the macroeconomic environment have dissipated.

55 | Risk and capital management

The Internal Capital Adequacy Assessment Process (ICAAP) is the central, coordinated procedure of BAWAG Group's risk management and comprises business, finance and risk processes that assess and ensure at all times that BAWAG Group is adequately capitalized. This includes the consideration of the risk profile of the Group and the quality of the Group risk management and control environment. In line with the ECB ICAAP Guides, BAWAG Group has implemented two ICAAP perspectives, normative and economic, to assess capital adequacy over the long term according to regulatory requirements, and in the short term for all risks faced by BAWAG Group, assuming baseline and adverse stress scenarios in both perspectives. The objectives of BAWAG Group's ICAAP encompass all processes and actions that assure:

- the appropriate identification, measurement, evaluation and management of all risks
- appropriate internal capital proportional to the risk profile
- appropriate liquidity situation
- internal capital adequacy
- the use and further development of suitable risk management systems

The framework is designed to support the Group management in managing the risk profile and capital adequacy of BAWAG Group.

The Group-wide ICAAP processes run in conjunction with the planning and budgeting processes. Close monitoring of their development is therefore imperative and is integrated into the proactive risk management of BAWAG Group.

The starting point of the ICAAP yearly review process is the risk self-assessment process (RSA), which provides an overview of the Group's risk situation using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, materiality and their impact on BAWAG Group.

Normative perspective

The normative perspective is a multi-year assessment of the institution's ability to fulfill all of its quantitative regulatory and supervisory requirements and demands, and to cope with other external financial constraints, under different macroeconomic scenarios, including severe economic downturns.

In connection with the normative perspective, Pillar I risks (credit risk, market risk, operational risk) as well as all material risks are quantified, projected and subsequently considered with regards to capital (RWA) and P&L views over a medium-term horizon. The following risk types are considered and quantified:

- **Credit risk:** The quantification of credit risk is based on the regulatory approach (Standardized, Advanced and Foundation IRB) and is considered under the capital view (RWA). Credit risk losses are also accounted for in the P&L view in the form of expected credit losses.

- **Single name concentration risk:** Economic borrower groups that are sufficiently relevant and therefore connected in terms of capital consumption which are to be monitored and managed on an individual basis. The most significant consumers of capital are additionally stressed with a higher probability of default in the ICAAP adverse scenario.

- **Market risk:** The quantification of market risk for the trading book is based on the regulatory approach and is considered under the capital view (RWA). Currently, the Bank holds no positions in the trading book. BAWAG Group has identified interest rate risk in the banking book, credit spread and equity risk as the material market risks and as such they are considered in the P&L under net interest income, gains and losses and other comprehensive income.

- **Operational risk:** The quantification of operational risk is based on the regulatory approach and is considered under the capital view (RWA). Operational risk losses are also accounted for in the P&L view.

- **FX basis spread risk:** FX basis spread risk has been classified as material and is considered in the P&L under gains and losses.

Economic perspective

BAWAG Group's economic perspective compares all material and non-material risks with internal capital. Limits are defined for all quantifiable risk categories and portfolios as part of the risk strategy in accordance with the annual budget and strategic planning. Compliance with the limits is monitored on a monthly basis according to the actual utilization.

In addition to risks considered in the normative perspective, the following risk types are considered and quantified differently in the economic perspective:

- **Credit risk:** The quantification of credit risk is based on the statistical models applying IFRS 9 point-in-time risk parameters (PD and LGD) for all main portfolio segments. Additional capital surcharges are applied for single name concentration risk and for the FX-induced credit risk. In order to cover losses stemming from deterioration in the debtor's rating, BAWAG Group allocated economic capital for migration risk for the first time in 2022.

- **Market risk:** The quantification of interest rate risk in the banking book and credit spread risk in the economic perspective are based on value-at-risk models. Other market risks, such as funds risk or foreign currency risk or equity risk in the banking book, are quantified with similar value-at-risk valuation models.

- **Liquidity risk:** Structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of own funding costs. Quantification methods based on historical worst-case analyses are used for market liquidity risk in the banking book and basis spread risk.

- **Operational risk:** The main sources of operational risk relate to legal risk, compliance risk, model risk, fraud risk, conduct risk, ESG risk, third-party risk, outsourcing risk and information and communication risk. The quantification of operational risk in the economic perspective is based on two components: the business indicator component (simple financial statement proxy of exposure to operational risk, common to all institutions) and the internal loss multiplier (component with Bank-specific operational loss data); the two components are multiplied in order to obtain the operational risk capital requirement (Standardized Measurement Approach as prescribed by Basel IV).

- **ESG risks:** These risks were already considered in the risk self-assessment for 2021. During the risk self-assessment for 2022, an expert-based analysis of the processes and related risk categories was conducted to derive the ESG-related loss potential. Explicit internal capital limits were allocated to ESG risk stemming from credit, market and operational risk. Overall ESG risk is low given low exposures to high transition risk industries such as fossil fuel and natural resource sectors as well as low exposures to restricted and prohibited industries.

- **Other risks:** This risk category includes reputation risk, participation risk, real estate risk, business risk and pension risk. In general, for all other risks the required economic capital is quantified using a simplified value-at-risk (VaR) model with 99.9% confidence level, based on the historical yearly observations, expected risk impacts for the year and their expected fluctuation. For reputation risk the simplified VaR model used for the asset side is combined with a simulation of outflow of resources and expensive re-financing for the liability side.

Stress testing

Stress testing is a critical risk management tool that provides valuable input for the strategic assessment of the business as well as operational risk management such as risk identification, risk appetite and limit setting.

Stress testing identifies sources of potential vulnerability and assesses whether capital is adequate to cover the risks that the business faces. It ensures that our business planning accounts not only for the base case of our economic projections, but also accounts for more severe economic stresses and potential outcomes. Critically, the levels of capital and liquidity under such stresses are observed and provide guidance in optimizing results and limiting downsides while ensuring capital adequacy.

Regular stress tests supplement the overall risk management framework and are fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

The methodology and results of both ICAAP perspectives as well as the stress test exercises are discussed on a quarterly basis in the ICAAP & Stress Testing Committee (ISTC) and reported to the ERM. The ERM oversees the assessment of the results of the exercises and defines any corrective action for the risk appetite or business strategy, where necessary. The design and approval of macroeconomic scenarios for internal stress test exercises are delegated to the Macroeconomic Scenario Committee (MSC) that is held on a quarterly basis before the ICAAP & Stress Testing Committee meeting.

The interaction between the ICAAP perspectives, the stress test exercises and capital management is formally defined within the internal risk and capital governance.

The capital ratios, which are defined within the capital planning process and monitored on a monthly basis by the Capital Management Meeting, are used as a benchmark for the normative perspective and for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the normative perspective and stress test exercises, senior management reviews whether the stressed capital ratios remain above the recovery levels. In case the recovery levels are breached, measures must be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

ECB's climate stress test

The SSM is the system of banking supervision in Europe and comprises the ECB and the national supervisory authorities of the participating countries. As an SSM institute[1)], BAWAG Group participated in the first stress test on climate and environmental risks, in which ECB assessed preparedness of banks to deal with financial and economic shocks stemming from climate risk scenarios over a 30-year time horizon. BAWAG was assigned an above average overall rating (top 35% of banks), indicating a rather low impact of climate risks related to our business model.

The corresponding feedback report, with the final results highlighted the following:

- Advanced internal stress testing framework and data quality
- Low impact of climate risks related to the business model

We continue to develop and expand our climate and environmental risk management and institutionalize the findings gained from this exercise, such as enhancements to the internal stress testing framework in terms of duration of time horizons. There is inherent complexity in assessing scientific impacts and societal reactions assumed to drive various financial impacts over the span of three decades, yet the approach will continually be refined in line with industry standards and evolving studies.

1) An SSM Institute is a banking institution subject to direct supervision of the Single Supervisory Mechanism (SSM);

56 | Credit risk

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

Governance: The operational credit risk divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) and retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Management Board level, is responsible for the approval of loan applications within the authorities defined in the Competence and Power Regulation. The department Credit Risk Reporting is responsible for the consistent calculation and aggregation of the individual credit risk metrics (eg. risk costs, coverage ratios etc.) within the defined regular BAWAG Group credit risk reporting framework.

Risk mitigation: Core objectives of credit risk management are to

- Steer conservative credit risk taking in line with approved risk appetite
- Maintain a governance and control framework to oversee credit risks across the lifecycle
- Identify, assess and measure credit risk in a timely and accurate manner

In operative terms, these objectives translate into the following key credit risk principles:

- Disciplined underwriting in well-established markets predominantly focused on secured or prime rated clients, based on a through-the-cycle lens view of performance.
- Clearly defined organizational units and approach to manage credit risk based on type of exposure. Corporate exposures are managed on a case-by-case basis by experts with deep expertise in the relevant segment and retail exposures are managed at the segment level leveraging data, analytics and proven rating infrastructure.
- Robust early warning, collections and workout framework in place to ensure credit risk at the single obligor level is identified at its earliest stage and appropriate mitigating actions are taken to ensure good outcomes for our clients and for the Bank.

Assessing creditworthiness

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

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

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

To manage overall concentration risk at the client and group of affiliated customers level, exposure limits are defined, monitored and reported on a monthly basis.

Due to the centralized structure and coordination of risk management processes across BAWAG Group, new risk regulations or changing market situations are considered and adapted in a timely manner within the risk management strategies.

Measuring credit risk

BAWAG Group is a banking group that applies the internal rating-based (IRB) approach and therefore sets high standards with regard to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are modeled, monitored, statistically calibrated and validated on a regular basis.

The following sections provide an overview of the structure and the portfolio quality in the individual segments.

31.12.2022 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total portfolio
At amortized cost	22,011	13,988	15,391	195	51,585
Financial assets FVPL/FVOCI	63	387	2,474	119	3,043
On-balance business	***22,074***	***14,375***	***17,865***	***314***	***54,628***
Off-balance business	4,328	2,045	1,157	792	8,322
Total	**26,402**	**16,420**	**19,022**	**1,106**	**62,950**
thereof collateralized	17,138	5,902	809	302	24,151
thereof NPL (gross view)	419	119	–	–	538
Impairments Stage 1	29	17	1	–	47
Impairments Stage 2	74	59	0	–	133
Impairments Stage 3	205	58	–	–	263
Total Impairments	**307**	**134**	**1**	**–**	**442**
Prudential filter	9	10	–	–	19

31.12.2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total portfolio
At amortized cost	20,672	14,348	13,029	399	48,448
Financial assets FVPL/FVOCI	155	456	3,291	–	3,902
On-balance business	***20,827***	***14,804***	***16,320***	***399***	***52,350***
Off-balance business	3,929	1,330	1,267	1,196	7,722
Total	**24,756**	**16,134**	**17,587**	**1,595**	**60,072**
thereof collateralized	16,761	5,947	667	385	23,760
thereof NPL (gross view)	476	132	–	254	862
Impairments Stage 1	24	11	1	0	37
Impairments Stage 2	54	47	0	–	102
Impairments Stage 3	230	44	–	2	276
Total Impairments	**308**	**104**	**1**	**2**	**415**
Prudential filter	3	5	–	203	211

Regulatory view under CRR consolidation

31.12.2022 in € million	Total book		
	Gross carrying amount	Impairments	Net carrying amount
Total	**42,861**	**(433)**	**41,972**
At amortized cost	**39,826**	**(432)**	**39,394**
Stage 1	37,573	(40)	37,533
Stage 2	1,648	(131)	1,518
Stage 3	605	(261)	344
Financial assets at fair value through other comprehensive income	**2,803**	**(1)**	**2,577**
Stage 1	2,803	(1)	2,577
Stage 2	–	–	–
Stage 3	–	–	–
Financial assets at fair value through profit or loss	**231**	**–**	**231**

This table does not include equity instruments (regulatory definition).
The net carrying amount includes the fair value measurement in the FVOCI Position.

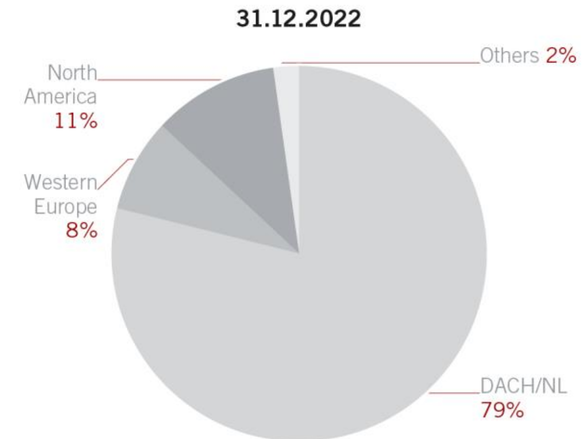
31.12.2021 in € million	Total book		
	Gross carrying amount	Impairments	Net carrying amount
Total	**41,165**	**(401)**	**40,607**
At amortized cost	**37,612**	**(400)**	**37,211**
Stage 1	35,417	(30)	35,387
Stage 2	1,278	(87)	1,191
Stage 3	917	(283)	634
Financial assets at fair value through other comprehensive income	**3,293**	**(1)**	**3,395**
Stage 1	3,293	(1)	3,395
Stage 2	–	–	–
Stage 3	–	–	–
Financial assets at fair value through profit or loss	**261**	**–**	**261**

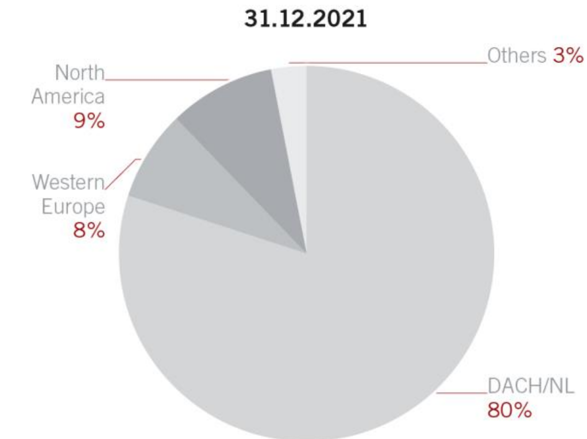
Geographical distribution of the lending and securities portfolio

The geographic distribution of the lending portfolio is in line with BAWAG Group's strategy of focusing on stable economies and currencies. A total of 98% (2021: 97%) of the lending portfolio[1)] and 93% (2021: 93%) of the securities portfolio[2)] is located in Western Europe and North America, with 94% (2021: 93%) in AAA or AA sovereign jurisdictions.

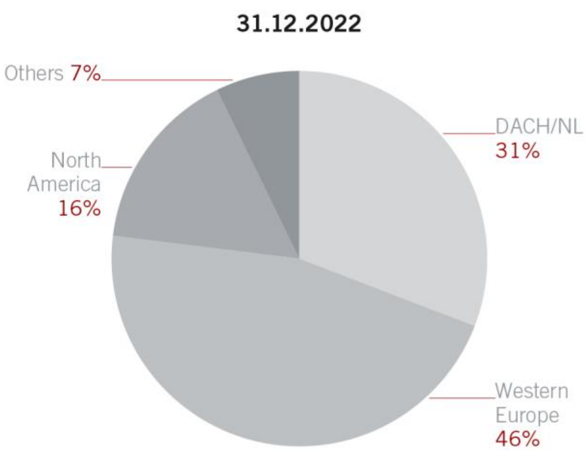
1) The majority of the lending portfolio is allocated to Austria with 60% (Dec 2021: 62%), Germany with 11% (Dec 2021: 10%), the United States with 10% (Dec 2021: 9%), the Netherlands with 9% (Dec 2021: 8%) and the United Kingdom with 3% (Dec 2021: 3%).
2) The major share of the securities portfolio is allocated to Ireland with 18% (Dec 2021: 14%), the United States with 15% (Dec 2021: 22%), Austria with 13% (Dec 2021: 8%), Germany with 11% (Dec 2021: 7%) and the United Kingdom with 10% (Dec 2021: 13%).

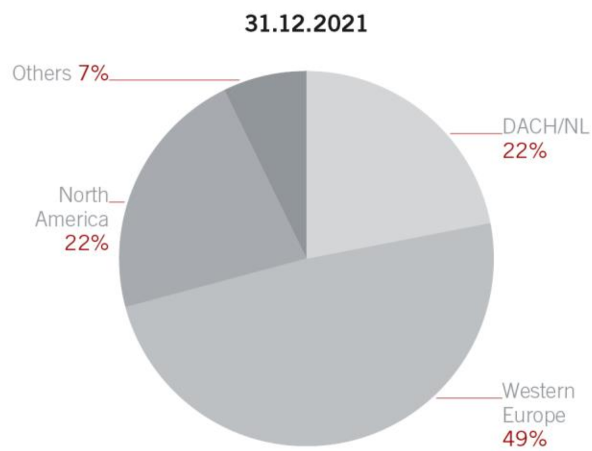
Geographical distribution of the lending portfolio





Geographical distribution of securities





Lending and securities portfolio by currencies

Consistent with BAWAG Group's overall positioning, the majority of financing is denominated in EUR. The following table depicts the currency distribution of the lending and securities portfolio.

	Book value		in %	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
EUR	46,548	44,615	85.2%	85.2%
USD	5,547	5,104	10.2%	9.8%
GBP	1,093	1,320	2.0%	2.5%
CHF	902	1,027	1.7%	2.0%
Others	538	284	0.9%	0.5%
Total	**54,628**	**52,350**	**100.0%**	**100.0%**

Credit quality overview: Lending, provisions, delinquencies and collateral

The following table shows the NPL ratio and provisioning of the lending portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provisioning level and collateral coverage across the portfolios. More than 85% (2021: 83%) of the total exposure can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value		in %	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
At amortized cost (gross)	**52,016**	**48,847**	**100.0%**	**100.0%**
Provisions	430	399	0.8%	0.8%
thereof Stage 1	39	30	0.1%	0.0%
thereof Stage 2	131	100	0.3%	0.2%
thereof Stage 3	260	269	0.5%	0.6%
At amortized cost (net)	51,585	48,448	99.2%	99.2%
NPL ratio			0.9%	1.4%
NPL cash coverage ratio			52.3%	56.5%
NPL coverage ratio			82.5%	79.2%

The following table shows the NPL ratio for the segments Retail & SME and Corporates, Real Estate & Public Sector.

	Retail & SME		Corporates, Real Estate & Public Sector	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Total	**22,074**	**20,827**	**14,375**	**14,804**
NPL ratio	1.6%	1.9%	0.7%	0.8%
NPL cash coverage ratio	50.9%	48.8%	57.5%	37.7%
NPL coverage ratio	77.1%	77.7%	100.0%	81.7%

The following table shows the distribution by ratings for the performing portfolio. The risk profile is stable.

in %	Moody's rating equivalent	Total portfolio		Retail & SME		Corporates, Real Estate & Public Sector	
		31.12.2022	31.12.2021	**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021
Rating class 1	Aaa–Aa2	31.6%	30.7%	0.2%	0.3%	15.1%	18.1%
Rating class 2	Aa3–A1	10.1%	11.2%	9.8%	10.5%	15.0%	13.8%
Rating class 3	A2–A3	7.5%	9.1%	10.5%	15.5%	6.3%	4.3%
Rating class 4	Baa1–Baa3	35.5%	34.5%	53.1%	50.1%	46.2%	46.5%
Rating class 5	Ba1–B1	13.1%	12.1%	21.8%	19.6%	16.1%	14.9%
Rating class 6	B2–Caa2	1.4%	1.7%	2.7%	2.6%	1.1%	2.1%
Rating class 7	Caa3	0.8%	0.7%	1.9%	1.4%	0.1%	0.3%

Collateral

BAWAG Group's strategy is to focus on financing supported by collateral and other credit enhancements whenever possible. Collateral serves as essential support for the lending business and reducing loss in the event of default of the debtor. However, during the decision-making process the focus prioritizes the affordability of the borrower in addition to the quality and accessibility of the collateral.

All acceptable collateral types are recorded in the Group Collateral Catalogue, where the principles for the valuation and revaluation of collateral are also defined. The catalogue defines which combinations of goods (characteristics of the economic good/asset) and collateral (to which BAWAG Group has title) are deemed acceptable and which value (market value, nominal value, etc.) has to be applied. The Enterprise Risk Management Committee decides if a type of collateral is accepted for credit risk mitigation taking the corresponding haircuts into consideration.

The following types of collateral are accepted:

- Real estate properties: residential real estate and commercial real estate
- Other collateral: vehicles and other physical collateral (not used for capital mitigation at the moment), pledging or assignment of life insurance policies
- Financial guarantees: financial collateral, securities, cash deposits at own bank
- Credit enhancements: guarantees and co-obligations

In order to serve as credit risk mitigation, collateral must meet the general legal and regulatory requirements and internal requirements defined in Group-wide internal policies. The collateral policies implemented in the subsidiaries are based on the Group-wide internal policies and include country-specific features. These policies are revised at least once a year. Any exceptions to internal rules must be well-founded, separately requested and explicitly approved.

Real estate valuation is centralized as far as possible to ensure a standard valuation approach. Only appraisers who are not involved in the credit decision process are permitted to conduct real estate valuations. IT-supported automated valuation for residential real estate is confirmed by independent internal appraisers. Commercial real estate is assessed by independent experts.

The basis for the collateral overview table below is the market value of all available collateral, reduced by internal haircuts. Furthermore, real estate properties are reduced by senior liens and the value is capped at the mortgage value.

The following table contains the split of collateral by categories.

in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Real estate	19,759	18,850	75.6%	75.6%
thereof residential	15,076	14,516	76.3%	77.0%
thereof commercial	4,683	4,334	23.7%	23.0%
Guarantees	4,732	4,273	18.1%	17.2%
Other collateral	1,161	1,218	4.4%	4.9%
Financial collateral	495	567	1.9%	2.3%
Total	**26,147**	**24,908**	**100.0%**	**100.0%**

Received collateral for the NPL portfolio

The figures below refer to gross NPL (Stage 3) exposure.

31.12.2022 in € million	NPL exposure	Real estate collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	532	178	34	18	23
Securities	0	0	–	–	–
Off-balance business	6	1	2	0	0
Total	**538**	**179**	**36**	**18**	**23**

The values shown are capped market values.

31.12.2021 in € million	NPL exposure	Real estate collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	850	212	30	16	25
Securities	–	–	–	–	–
Off-balance business	12	1	7	0	0
Total	**862**	**213**	**37**	**16**	**25**

The values shown are capped market values.

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) as the difference between the contractual cash flows of a financial instrument and the cash flows that a bank expects to receive, which are probability-weighted future outcomes across several scenarios.

The main drivers in the ECL calculation are the stage allocation and lifetime risk parameters, which represent the Bank’s expectation. With lifetime denoting the remaining maturity terms of a financial asset, lifetime risk parameters are, namely, probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default (EAD), which are estimated with an internally developed model. The ECL models in BAWAG Group apply to

- Financial assets that are recorded at amortized cost or at fair value through other comprehensive income
- Lease receivables
- Loan commitments and financial guarantees that are not measured at fair value through profit or loss
- Contract assets according to IFRS 15

Lifetime risk parameters

The IFRS 9 lifetime risk parameters consist of a through-the-cycle and a point-in-time component. The through-the-cycle component captures idiosyncratic risks of the financial instruments that are stable over time and are measured by the long-term average of risk parameters. Point-in-time components gauge the systematic risks, typically represented by macroeconomic forecasts and the portfolio credit risk cycle.

Apart from satisfying the IFRS 9 requirements, the BAWAG Group IFRS 9 risk parameters ensure internal consistency in the following points.

Where applicable, internal rating-based (IRB) risk models, which are conceptually through-the-cycle, are the starting point for IFRS 9 risk parameter estimation. For portfolios where no IRB risk models are implemented, i.e. standardized approach or LGDs for F-IRB models, other internal models are applied. Necessary adjustments are made to ensure compliance with the IFRS 9 guideline: increase the forecast horizon from 1 year to lifetime; adjust the through-the-cycle parameters to the point-in-time to reflect recent trends; factor in forward-looking information in the ECL estimation as IFRS 9 requires. Separate models are developed to estimate the lifetime risk parameters across the portfolios with different underlying risks. The accuracy of the models is continuously and rigorously confirmed by the annual internal model validation. Further, BAWAG Group applies the default definition according to Article 178 of Regulation (EU) No 575/2013 (Capital Requirement Regulation – CRR), which refers to 90 days past due and to unlikeliness-to-pay criteria, consistent for all asset classes and risk models: IFRS 9 lifetime risk parameters are estimated and calibrated accordingly.

Probability of default (PD)
Lifetime probability of default is the probability of clients' insolvency over the financial instrument's lifetime. The through-the-cycle component of PD is derived by the long-term average migration matrix defined across ratings, where ratings are determined by the IRB risk models. Point-in-time components are captured by shifting through-the-cycle PD, where the shifts are determined by a divergence of the forecasted future portfolio default rate and long-term average default rate of the portfolio. Future default rates are estimated with macroeconomic forecasts and other forward-looking information available to the Bank.

Loss given default (LGD)
Lifetime loss given default represents the Bank's expected loss in case the financial assets are in default. Like PD, the LGD's through-the-cycle and point-in-time components are modelled separately. Through-the-cycle LGDs reflect historically observed collateral, cash payment and other sources of recovery. For the incorporation of forward-looking information, the through-the-cycle LGDs are shifted consistently with macroeconomic forecasts and information available to the Bank at the time of estimation.

Exposure at default (EAD)
Lifetime exposure at default measures the expected exposure amount at the time of default. For loans, the amount is estimated as a sum of discounted future cash flows the Bank expects to receive. For revolving products, EAD is a sum of the expected drawn commitments at the time of default. The expected drawn amounts are approximated by the credit conversion factor (CCF), which is modelled based on the historically observed consumed commitments.

Staging criteria and significant increase in credit risk (SICR)

A key feature of ECL estimation under IFRS 9 is the stage allocation of assets. If a financial asset shows a significant increase in credit risk (SICR) or is recognized as credit-impaired, the ECL estimate of the asset is the lifetime expected credit loss (Stage 2 or Stage 3, respectively), and the 12-month expected credit loss otherwise (Stage 1).

Stage 1: Initial Recognition/Performing:

Financial instruments at initial recognition are in Stage 1 (with a few exceptions, e.g. for purchased or originated financial assets that are credit-impaired on initial recognition "POCI") and those which do not show a significant increase in credit risk since initial recognition (in the case of POCI, only the cumulative changes in lifetime expected losses since initial recognition are recognized).

Stages 2: Significant increase in credit risk:

When a financial instrument has been in Stage 1, but a significant increase of credit risk since the initial recognition is observed, the instrument is transferred to Stage 2. If the instrument's credit risk increases further to the point that it is credit-impaired, the instrument is then transferred to Stage 3. The measurement of the risk provisions for Stage 2 and Stage 3 are lifetime expected credit loss, estimated by lifetime risk parameters.

Stage 3: Credit impaired/Non-performing:

If the instrument's credit risk increases further to the point that it is credit-impaired, the instrument is then transferred to Stage 3.

BAWAG Group examines the stage allocation of assets at each reporting date. The transfer criteria from Stage 1 to Stage 2 are in three pillars:

- quantitative criteria
- qualitative criteria
- backstop criterion

The quantitative criteria examine the worsening of lifetime PDs since the initial recognition, while the qualitative criteria gather additional information about the assets to assess the SICR. As an additional backstop criterion, payment in arrears is considered in BAWAG Group. If one of the criteria is satisfied, a financial instrument is transferred from Stage 1 to Stage 2. Hence, if none of the transfer criteria is active, the asset is kept in or reassigned to Stage 1.

Quantitative criteria
A quantitative criterion examines the financial asset's credit risk profile based on two aspects:

- the relative lifetime PD change
- the absolute lifetime PD change

If both indicators surpass the predetermined thresholds and indicate a significant increase in credit risk, then the asset is transferred to Stage 2.

Qualitative criteria
Qualitative staging criteria factors selected by BAWAG Group are:

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

If one of these factors is flagged as active, a financial asset is transferred to Stage 2.

Backstop criterion
As a backstop criterion, BAWAG Group employs payment in arrears for more than 30 days. All financial instruments that are more than 30 days past due would be transferred to Stage 2, if not yet in Stage 3.

In cases where no staging factor is active, the exposure is automatically reassigned to Stage 1. Defaulted exposures that are not impaired and with no arrears at either the customer or account level on the reporting date are deemed as cured from default and are assigned to Stage 2 considering the lowest internal risk class for the purpose of the ECL calculation.

Stage 3: Lifetime loan loss provision

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or group of financial assets is impaired, and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date (“a loss event”);
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- a reliable estimate of the loss amount can be made.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counterparty risks is based on expected future recoveries in accordance with the risk analysts’ estimates. For counterparty risks that are not individually significant, the Group applies loss rate estimates for Retail and SME portfolios that are based on historically observed default and recovery information, customer time in default and LTV information (for mortgage loan exposures) to calculate the applicable level of loan loss provision.

The new default definition aligned with the latest EBA requirements (EBA/GL/2016/07) is fully implemented in BAWAG Group, with limited impact on the overall level of expected credit loss. The new default definition requires adaptions of the Bank’s IRB credit risk models, which are subject to approval by the supervisory authorities before implementation (Delegated Regulation EU 529/2014). This process is currently ongoing.

Furthermore, BAWAG Group is fully compliant with the ECB’s “Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures” and Regulation (EU) 2019/630 amending CRR Regulation (EU) No 575/2013.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

The following table provides an overview of the development of IFRS book values (net of impairments) across stages.

Reconciliation of book values by stage

31.12.2022 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance
Book values for impairments in Stage 1 (without POCI)	**49,009**	**6,872**	**(4,024)**	**(1,199)**	**50,658**
Lending portfolio	43,281	6,154	(3,591)	(934)	44,910
Securities	5,728	718	(433)	(265)	5,748
Book values for impairments in Stage 2 (without POCI)	**1,334**	**126**	**(166)**	**239**	**1,533**
Lending portfolio	1,334	126	(166)	239	1,533
Securities	0	(0)	0	(0)	–
Book values for impairments in Stage 3 (without POCI)	**578**	**21**	**(314)**	**(16)**	**269**
Lending portfolio	578	21	(314)	(16)	269
Securities	–	–	0	(0)	–
Total POCI	**4**	**47**	**–**	**(1)**	**50**
Lending portfolio	4	47	–	(1)	50
Securities	–	–	–	–	–
Total	**50,925**	**7,066**	**(4,504)**	**(977)**	**52,510**

Only IFRS 9 ECL-relevant book values are shown.

Reconciliation of impairments per stage

31.12.2022 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance
Impairments Stage 1 (without POCI)	**37**	**14**	**(10)**	**6**	**47**
Lending portfolio	30	11	(5)	1	37
Securities	1	1	(5)	6	3
Off-balance business	6	2	–	(1)	7
Impairments Stage 2 (without POCI)	**102**	**10**	**(10)**	**31**	**133**
Lending portfolio	100	9	(10)	32	131
Securities	–	–	–	–	–
Off-balance business	2	1	–	(1)	2
Impairments Stage 3 (without POCI)	**267**	**14**	**(66)**	**38**	**253**
Lending portfolio	261	14	(66)	41	250
Securities	–	–	–	–	–
Off-balance business	6	–	–	(3)	3
Total POCI	**2**	**1**	**–**	**7**	**10**
Lending portfolio	2	1	–	7	10
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–
Total	**408**	**39**	**(86)**	**81**	**442**

Transition of impairments by financial instruments

31.12.2022 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	30	21	(27)	15	(3)	(9)
Securities	0	–	(0)	–	(0)	(0)
Off-balance business	0	(0)	(0)	(0)	0	0
Total	**31**	**21**	**(28)**	**15**	**(3)**	**(9)**

31.12.2021 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	19	(1)	(15)	(13)	0	11
Securities	–	–	–	–	–	–
Off-balance business	0	(0)	(1)	(0)	0	0
Total	**19**	**(1)**	**(16)**	**(13)**	**0**	**11**

Distribution of book values by impairment stage and rating

The numbers below refer to IFRS book values (net of stage 1 to 3 provisions).

31.12.2022 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**16,278**	**5,364**	**3,866**	**18,331**	**6,308**	**375**	**136**	**–**	**50,658**
Lending portfolio	13,538	3,982	3,008	17,613	6,258	375	136	–	44,910
Securities	2,740	1,382	858	718	50	(0)	–	–	5,748
Book values for impairments in Stage 2 (without POCI)	**0**	**4**	**10**	**87**	**725**	**375**	**332**	**–**	**1,533**
Lending portfolio	0	4	10	87	725	375	332	–	1,533
Securities	–	–	–	–	–	–	–	–	–
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**269**	**269**
Lending portfolio	–	–	–	–	–	–	–	269	269
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**0**	**–**	**0**	**5**	**8**	**31**	**6**	**50**
Lending portfolio	–	0	–	0	5	8	31	6	50
Securities	–	–	–	–	–	–	–	–	–
Total	**16,278**	**5,368**	**3,876**	**18,418**	**7,038**	**758**	**499**	**275**	**52,510**

Only IFRS 9-ECL relevant book values are shown.

31.12.2021 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**15,447**	**5,703**	**4,507**	**17,234**	**5,652**	**425**	**41**	**–**	**49,009**
Lending portfolio	13,132	4,006	3,566	16,502	5,609	425	41	–	43,281
Securities	2,315	1,697	941	732	43	–	–	–	5,728
Book values for impairments in Stage 2 (without POCI)	**3**	**6**	**13**	**79**	**498**	**429**	**306**	**–**	**1,334**
Lending portfolio	3	6	13	79	498	429	306	–	1,334
Securities	–	–	–	–	–	0	–	–	0
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**578**	**578**
Lending portfolio	–	–	–	–	–	–	–	578	578
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Lending portfolio	–	–	–	–	–	–	–	4	4
Securities	–	–	–	–	–	–	–	–	–
Total	**15,450**	**5,709**	**4,520**	**17,313**	**6,150**	**854**	**347**	**582**	**50,925**

Only IFRS 9-ECL relevant book values are shown.

Expected credit loss (ECL)

Expected credit losses of BAWAG Group are based on a probability-weighted expected outcome as IFRS 9 stipulates: The ECL estimates under three different scenarios are aggregated with scenario weights to constitute a final ECL estimate. The macroeconomic scenario is comprised of forecasts of major macroeconomic variables: Among all variables, BAWAG Group uses the GDP growth as a main source of forward-looking information to consider in ECL estimates, with additional variables such as inflation, unemployment rate or housing prices in a complementary role.

The distribution among three scenarios (baseline 40%, optimistic 30% and pessimistic 30%) allows the Bank to cover the broad range of future expectations and has been chosen as the most appropriate within the industry standards. The following table provides an overview of GDP growth assumptions and scenario weights applied to determine ECL.

Stage 1: 12-month ECLs

The horizon of the expected credit loss calculation for Stage 1 instruments is up to 12 months after the reporting date, considering the forward-looking probability of default, loss given default and exposure structure within this period.

Stage 2: Lifetime ECLs

For financial instruments in Stage 2, the horizon of the expected credit loss is until the end of the instrument's maturity.

Eurozone GDP growth assumptions by scenario

GDP growth 31.12.2022 in %	2022	2023	2024	2025
Optimistic (30% weight)	3.2	0.4	2.4	2.3
Baseline (40% weight)	3.2	(1.0)	2.1	2.8
Pessimistic (30% weight)	3.2	(3.5)	0.0	3.9

The pessimistic scenario assumes a rapid growth recession in the beginning of 2023 due to the effects of the energy crisis combined with a rapid tightening of monetary policy, followed by a gradual recovery in the next years. The forecasted level of GDP remains the lowest in the pessimistic scenario.

GDP growth 31.12.2021 in %	2021	2022	2023	2024
Optimistic (30% weight)	5.0	5.6	3.5	1.9
Baseline (40% weight)	5.0	3.8	2.7	2.1
Pessimistic (30% weight)	5.0	(0.4)	1.4	2.9

Sensitivity analysis

The following table illustrates the weighted impairment allowance as well as the results of the sensitivity analysis where ECLs are measured under each scenario with 100% weight. The sensitivity analysis is based on the baseline ECL excluding the applied management overlay. As of year-end 2022, an additional ECL management overlay of € 100 million (2021: € 61 million) is held to address the geopolitical uncertainties. This overlay would fully cover the additional provisioning requirements in the event that the pessimistic scenario does materialize.

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in € million	ECL incl. management overlay	ECL excl. management overlay	ECL scenario change 100% Optimistic	100% Baseline	100% Pessimistic
Stage 1 & Stage 2 impairments	179	79	(5)	0	5

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in € million	ECL incl. management overlay	ECL excl. management overlay	ECL scenario change 100% Optimistic	100% Baseline	100% Pessimistic
Stage 1 & Stage 2 impairments	139	78	(8)	2	5

BAWAG Group estimates ECL using, among other factors, historical data and relationships to develop judgements about future developments. The Bank observed that historical relationships between key variables do not necessarily hold true in the current macroeconomic environment, because comparable economic conditions have not existed in the past. Particularly lockdowns, high inflation rates and governmental support measure effects are still not evident in terms of impact on macroeconomic drivers and, ultimately, on default rates. This subsequently becomes apparent in the sensitivity of the respective risk parameters. Yet again, this is a consequence of historical macroeconomic parameters such as inflation having no easily quantifiable link to fluctuations in default rates, e.g. while inflation rates increase significantly, a historical relationship with defaults has not been observed. After adding the most recent observations, the level of sensitivity in the risk parameters with regards to the severe macroeconomic conditions remains muted, as current ECL models were not designed or calibrated with these circumstances in mind. Consequently, BAWAG Group is currently reviewing its IFRS 9 methodologies and in the meantime uses post-model adjustments (management overlay, see more in the section "Provisioning and management overlay") in line with best practice and regulatory expectations, where risks and uncertainties cannot be adequately reflected in existing models.

Forborne loans and forbearance measures and unlikeliness to pay

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

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

By implementing forbearance measures that are appropriate in terms of time and scope, BAWAG Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards.

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

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

For customers who have made use of a payment deferral in connection with the COVID-19 pandemic crisis falling under the EBA definition of a legislative or non-legislative moratorium, the Bank has refrained from classifying these customers as forborne. Unlikeliness to pay (UTP) assessment is a critical part of these watch list and review processes.

Collateral and valuation of residential and commercial real estate

The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. Valuation of real estate properties in other countries is also done by independent experts according to international standards. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich) for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and by MAC (MeilleursAgents.com) for French residential properties. The values of the properties in the Netherlands are periodically updated based on the CBS index (Centraal Bureau voor de Statistiek) and the real estate properties situated in Germany are periodically checked with the help of the market volatility concept.

The values of commercial properties are appraised individually by experts in the centralized Commercial Real Estate Appraisal team, by selected external appraisers commissioned by BAWAG Group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

All types of acceptable collateral are listed in the BAWAG Group Collateral Catalogue and collateral handbooks in subsidiaries. Adequate haircuts are defined for each type of collateral.

Workout departments

The workout and collection departments (retail/non-retail) are responsible for the processing, administration and restructuring or collection of troubled and defaulted loan commitments. The primary objective is to minimize losses and to maximize recoveries.

Early recognition of troubled assets

Customers that trigger defined early-warning signals for various reasons (e.g. general deterioration of creditworthiness, significant decline in the stock price, rise in CDS spreads, negative press reports/ad-hoc publicity, unusual risk concentrations, etc.) are placed on the watch list and discussed in the Watch Loan Committee, which is made up of members of the relevant business and risk units. This committee develops and elaborates on risk mitigation actions for single exposures and oversees consistent monitoring of all cases with an elevated probability of default.

Retail & SME

The Retail & SME portfolio is comprised of 72% housing loans (2021: 75%) and 28% consumer and SME (2021: 25%). The segment comprises assets across the DACH/NL region as well as international portfolios.

The mortgage portfolio is characterized by strong collateral coverage and low weighted average LTVs. As specified in the retail strategy, new business volumes were originated primarily in the mortgage segment.

BAWAG Group applies the following principles for credit assessment of retail customers. These principles are clearly reflected in the underwriting guidelines taking into account approved risk appetite.

- Capacity or affordability measures a borrower's ability to repay a loan by comparing income against recurring expenses and credit commitments. In addition, we apply backstop rules based on the debt service to income ratio (DSTI) to limit borrower leverage.
- Creditworthiness refers to a borrower's reputation or track record of servicing debt as evidenced by previous payment history internally and externally. As an IRB institution, we apply robust statistical scorecards to rate customers at the point of lending and on an ongoing basis. Scorecard cut-offs are set based on risk/reward assessment within the approved risk appetite.
- Conditions refer to how the borrower intends to use the credit and it needs to be aligned to the credit facility's purpose and terms and conditions. We have a clearly defined product construct defining loan amount thresholds, duration and purpose.
- Collateral refers to the ability to recover via enforcement of the collateral in the event of borrower default. Clearly defined eligibility criteria for collateral are in place and have been appraised by a panel of internal and external experts.
- Commitment or capital considers the borrower's personal financial contribution to the purpose of the facility. Clearly defined minimum borrower contribution and/or loan to value (LTV) thresholds are applied.

Lending portfolio by products

	Book value		NPL ratio	NPL coverage ratio
in € million	**31.12.2022**	31.12.2021	**31.12.2022**	**31.12.2022**
Consumer & SME	6,121	5,134	2.7%	65.2%
Housing loans	15,953	15,693	0.9%	97.7%
Total	**22,074**	**20,827**	**1.6%**	**77.1%**

The housing loan portfolio is characterized by standard LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average tenor of the housing loan portfolio is less than 23 years (2021: 22 years).

The Consumer & SME lending portfolio consists of unsecured private loans, overdrafts and credit cards across different sales channels of the Group. It includes leasing activities, which are characterized by a mix of leasing assets (car leasing, IT, equipment and real estate leasing).

For the Retail & SME segment, the overall NPL and coverage ratios reflect a stable and low-risk, highly collateralized portfolio. BAWAG Group has continued to apply the strategy of rigorous management of non-performing loans in order to achieve low NPL volumes and to concentrate on the main business focus. In addition, the early detection, collection and recovery processes were further improved with a view to successfully repaying loans from a technical and risk perspective.

The NPL ratio of the Retail & SME portfolio is 1.6% (2021: 1.9%). The NPL coverage ratio is 77.1% (2021: 77.7%), which is supportive of the risk profile of this portfolio.

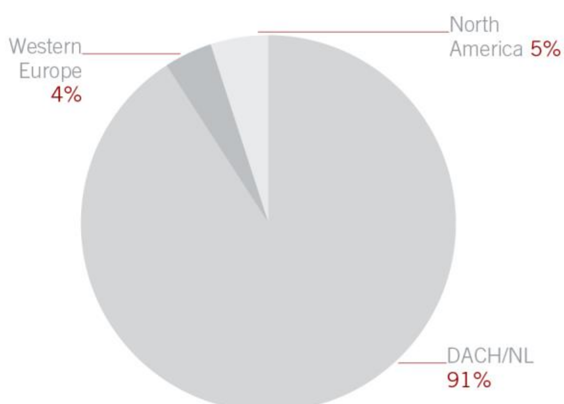
Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
EUR	19,712	18,778	89.3%	90.1%
USD	1,036	456	4.7%	2.2%
CHF	765	857	3.5%	4.1%
GBP	552	721	2.5%	3.5%
JPY	9	15	0.0%	0.1%
Total	**22,074**	**20,827**	**100.0%**	**100.0%**

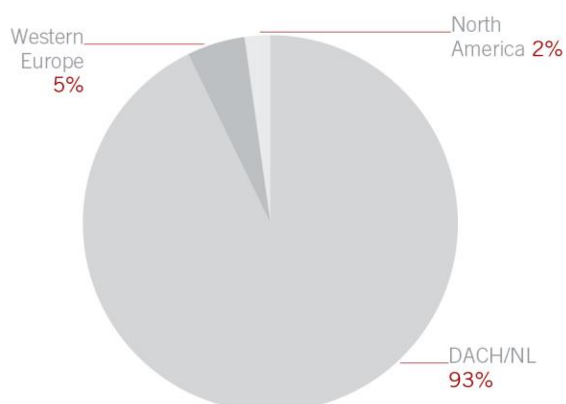
Retail assets – regional distribution

Geographical distribution of the lending portfolio

31.12.2022



31.12.2021



Forbearance by products

	Consumer & SME		Housing loans		Total	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Forborne assets	**120**	**97**	**160**	**164**	**279**	**261**
Impairments	31	20	10	5	41	25
Collateral	11	14	156	152	168	166

Days past due

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure the full repayment of loans.

The Retail & SME portfolio is 98.2% (2021: 97.8%) current (i.e. no days past due). Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results reflect the strong credit quality of the portfolio.

	Consumer & SME		Housing loans		Total	
in € million	**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021
Total book value	**6,121**	**5,134**	**15,953**	**15,693**	**22,074**	**20,827**
1–30 days	1.7%	2.7%	0.2%	0.5%	0.6%	1.0%
31–60 days	0.5%	0.3%	0.1%	0.2%	0.2%	0.2%
61–90 days	0.2%	0.2%	0.0%	0.0%	0.1%	0.1%

The days past due counter was adjusted in 2020 based on EBA/GL/2016/07 and Regulation (EU) 2018/1845 to capture the group-wide amount in arrears compared to the Group-wide on-balance exposure taking into account the new materiality thresholds.

Corporates, Real Estate & Public Sector

	Book value		NPL ratio	NPL coverage ratio	Investment grade
in € million	**31.12.2022**	31.12.2021	**31.12.2022**	**31.12.2022**	**31.12.2022**
Corporates	3,785	4,086	1.5%	100.0%	76.8%
Real Estate	6,009	5,707	0.8%	92.9%	72.3%
Public Sector	4,580	5,011	–	–	99.9%
Total	**14,375**	**14,804**	**0.7%**	**100.0%**	**82.3%**

The Corporates and Real Estate portfolios include DACH and international assets from stable markets (primarily the US, the UK and Western Europe). This business is based upon a conservative underwriting approach, proactive risk management and disciplined growth in stable and mature developed economies. Throughout the business cycle, we maintain a highly disciplined approach to risk-adjusted pricing. The foundation is based on conservative underwriting over the years with a clear focus on cash flow generating companies, high margin with high-quality collateral and solid capital structures with strong lender protection features. The underwriting qualifications rarely change with market conditions and can affect our ability to generate new business, which requires greater patience and rigor.

Corporates: The Corporates portfolio is composed primarily of loans directly issued to companies. The segment is characterized by moderate (net) debt/EBITDA ratios of <4.0x, strong cash flow profiles and ~77% in internal rating classes corresponding to investment grade class. We focus on non-cyclical industries. In addition, the portfolio is predominantly senior secured, reflecting the prioritized first-out positions in the capital structure. The relatively low NPL ratio of 0.7% (2021: 1.7%) in the corporates segment is reflective of the selective underwriting and resilient portfolio.

Corporates industries

in € million	Total 31.12.2022	Total 31.12.2021	in % 31.12.2022	in % 31.12.2021
Food & Beverages	721	694	19%	17%
Services	600	754	16%	18%
Pharmaceuticals	396	459	10%	11%
Lender Financing	313	566	8%	14%
B-2-C Products	255	272	7%	7%
Health Care	234	177	6%	4%
Engineering and B-2-B	196	262	5%	6%
Gaming	190	5	5%	0%
Telecommunication	185	216	5%	5%
Other	695	681	18%	17%
Total	**3,785**	**4,086**	**100%**	**100%**

Real Estate: Real Estate transactions include direct lending against Real Estate assets or against portfolios backed by Real Estate assets. The lending portfolio consists of senior secured structures with a LTV/C of ≤50% on average. The cross collateralized ring-fenced portfolio financings contain strong lender protection features such as significant equity contribution, cash flow sweeps, interest coverage requirements, interest rate hedging requirements and covenant tests. The asset classes of our Real Estate portfolio are well diversified. Residential exposures represent 40% of the total book. New Business in 2022 was mainly focused on the asset classes of residential and industrial/logistic. Given the strong impact of the current environment on the real estate markets, we analyzed the relevant markets in terms of countries and asset classes to confirm our satisfactory risk perception and the selective approach. The risk perception is based on the following facts:

- Resilient overall asset quality in high-quality locations/geographies
- Strong underlying sponsors with significant investment history with BAWAG
- Lower net exposures compared to other industries with high asset value and strong LTV for international real estate
- Asset classes of residential and logistics have performed well, and office has been stable despite hybrid working, driven by locations and sponsor improvements
- Uncertainty due to war in Ukraine impacting economic growth globally (supply chains, rising interest rates, rising costs)
- Rising interest rates and inflation putting some pressure on valuations but mitigated by strong LTVs

Real estate underlying assets

in € million	Total 31.12.2022	Total 31.12.2021	in % 31.12.2022	in % 31.12.2021
Residential	2,409	1,858	40%	32%
Office	1,176	1,050	20%	18%
Industrial/Logistics	1,028	716	17%	12%
Mixed	1,010	1,076	17%	19%
Shopping/Retail	88	148	1%	3%
Other	298	859	5%	15%
Total	**6,009**	**5,707**	**100%**	**100%**

Public Sector: The Public Sector portfolio primarily consists of loans and limits directly to public sector entities such as sovereigns, federal states or municipalities or to agencies/companies (partially) owned by such public sector entities. It is customary for an explicit or implicit guarantee to be in place provided by the public sector entity. The main focus of the portfolio is Austria, with secondary exposure in Germany. Overall, this portfolio is characterized by low risk and sovereign, state or municipality guarantees. Historically, there is not a significant default history for public sector entities and support can strongly be assumed for publicly owned entities and agencies, which usually fulfill a public task and are therefore systemically important. There are no NPLs in this category, and regulatory-required risk-weighed assets are low.

Material credit decisions are made by the Credit Approval Committee (CAC), a special body at the Management Board level. Every credit decision is strictly reviewed, discussed and coordinated in accordance with BAWAG Group's guidelines. BAWAG Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international business. For loan applications below a certain threshold, risk managers are granted authority to approve credit applications.

Corporates & Public Sector – Forbearance

in € million	31.12.2022	31.12.2021
Forborne assets	58	155
Impairments	39	33
Collateral	55	70

Particular risk concentrations in the lending portfolio

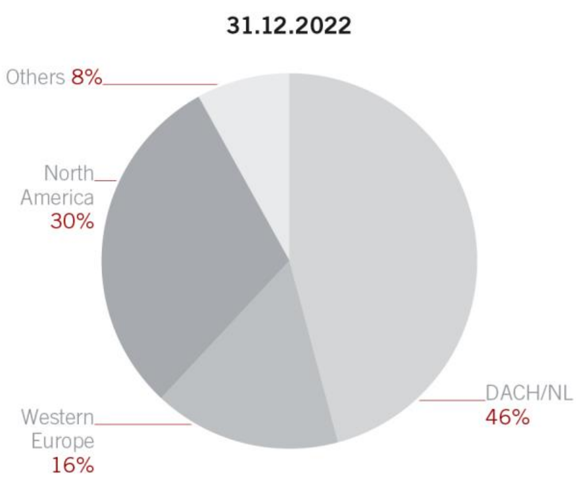
A major focus of risk management in the Corporates & Public Sector segment is centered on managing concentration risk. Concentration risk arises from large exposures in individual customer segments or from large industry/country/foreign currency exposures.

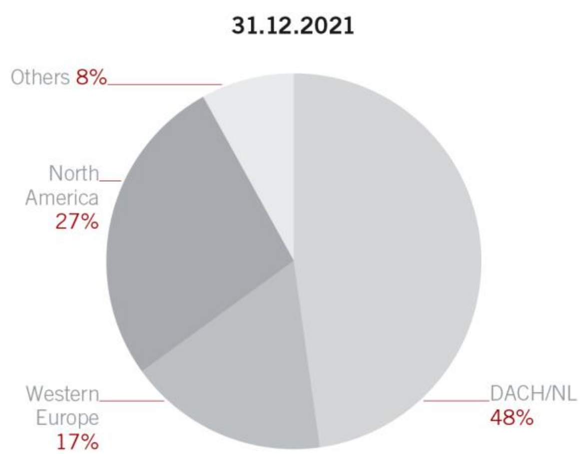
Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
EUR	9,423	10,152	65.6%	68.6%
USD	3,883	3,816	27.0%	25.8%
GBP	425	465	3.0%	3.1%
AUD	187	–	1.3%	–
CAD	156	44	1.1%	0.3%
Others	300	327	2.0%	2.2%
Total	**14,375**	**14,804**	**100.0%**	**100.0%**

Corporates & Public Sector assets – Regional distribution

Geographical distribution of the lending portfolio





Risk concentrations by industry segmentation

Corporates, Real Estate & Public Sector	Book value		in %	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Real Estate	6,212	5,814	43.2%	39.3%
Public Sector	4,580	5,011	31.9%	33.9%
Food & Beverages	721	694	5.0%	4.7%
Services	600	754	4.2%	5.1%
Pharmaceuticals	396	459	2.8%	3.1%
Lender Financing	313	566	2.2%	3.8%
B-2-C Products	255	272	1.8%	1.8%
Health Care	234	177	1.6%	1.2%
Engineering and B-2-B	196	262	1.4%	1.8%
Gaming	190	5	1.3%	0.0%
Other	678	788	4.7%	5.3%
Total	**14,375**	**14,804**	**100.0%**	**100.0%**

Using internal industry segmentation.

Interest rate risk in the lending portfolio

The BAWAG Group closely monitors the interest rate-induced risks in its loan portfolios. In general leverage, interest expenses and interest rate structure (fixed/variable, hedging agreements, refinancing dates and risks) are analyzed in depth at origination, at annual review and on ad hoc basis even more often. Stressed assumptions are applied to assess credit-worthiness and come to a risk assessment. For international Commercial Real Estate most contracts foresee a hedging requirement of variable rate loans once a certain threshold (e.g. Euribor) is reached. Currently, ca. 75% of the Corporate, Real Estate and Public Sector portolio is linked to variable interest rates.

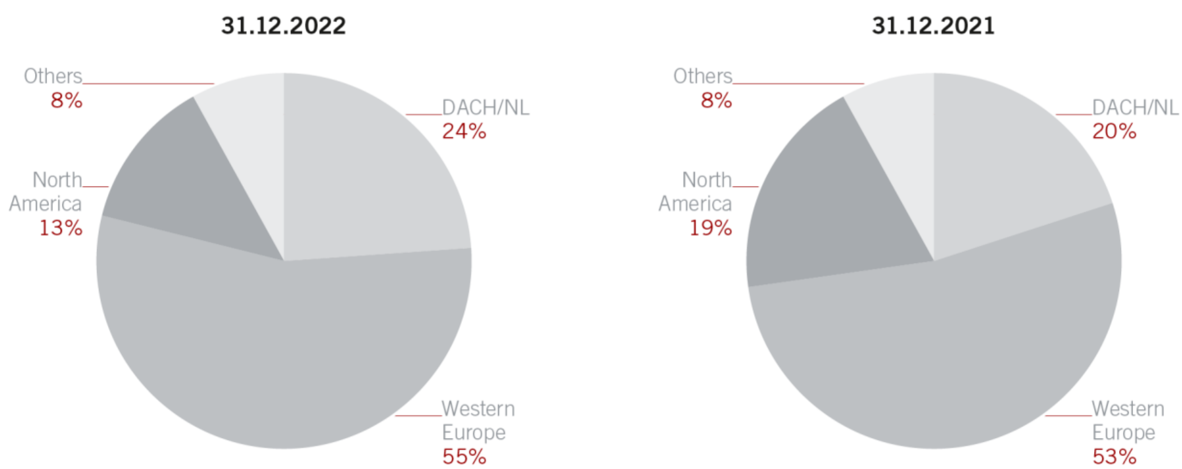
Treasury

	Book value		Investment grade	
in € million	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Banks	4,601	4,145	100.0%	98.8%
Sovereigns	11,916	10,778	100.0%	100.0%
CLOs	1,163	759	100.0%	100.0%
Others	185	638	99.2%	98.3%
Total	**17,865**	**16,320**	**99.9%**	**99.6%**

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

The bond investment portfolio of the Treasury segment amounts to 26% (2021: 31%) of the total book value and is comprised 99% of investment grade rated securities (2021: 99%), of which 71% were rated in the single A category or higher (2021: 72%). As of 31 December 2022, the portfolio had no direct exposure to China, Russia, Ukraine, Hungary or South-Eastern Europe. Exposure to Southern Europe continues to be moderate and comprises liquid bonds of well-known issuers. The overall composition of the investment portfolio reflects the strategy of maintaining high credit quality, shorter durations and strong liquidity in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Geographical distribution of the securities portfolio[1)]



Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021
EUR	17,210	15,329	96.3%	93.9%
USD	530	824	3.0%	5.1%
Others	125	167	0.7%	1.0%
Total	**17,865**	**16,320**	**100.0%**	**100.0%**

Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Group, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center as well. The focus of the Corporate Center is set on non-business-related positions.

1) Investment book only. These regions include Ireland with 24% (Dec 2021: 17%), United Kingdom with 13% (Dec 2021: 15%), the United States with 12% (Dec 2021: 18%), France with 11% (Dec 2021: 10%) and Germany with 8% (Dec 2021: 5%).

57 | Market risk

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

BAWAG Group has a clearly defined market risk appetite. All related risks (from an economic perspective as well as regarding IFRS fair value and OCI risks) are strategically managed at the Group level. All subsidiaries of the Group basically run no open market risk positions, as the customer business (e.g. loans and deposits), investment books and own issues are fully hedged according to the ALM hedging policy. All outright risk positions are subject to approval by the Strategic Asset Liability Committee and are measured and reported separately.

The primary market risk components for BAWAG Group are interest rate and credit spread risk. Both risk categories are measured and monitored via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting.

The primary body for dealing with market risks is the Strategic Asset Liability Committee (S-ALCO). In the monthly S-ALCO, all strategic interest, FX- and liquidity-risk-related business opportunities along with their impact on risk, earnings and balance sheet targets are discussed and the desired balance sheet and risk structure is generally specified, thereby taking into consideration interest rate, FX and liquidity limits for the banking book.

Market risk in the trading book

BAWAG Group runs no active trading book. No trading activities are currently planned for the entire Group.

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk and credit spread risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (S-ALCO) has assigned interest rate risk limits to the Treasury & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the BAWAG Group level. Risk Modelling reports to the S-ALCO on a daily basis as well as monthly at the BAWAG Group level on limit utilization and the distribution of risk.

The target interest rate risk structure defined by the S-ALCO is implemented by the Treasury & Markets division.
BAWAG Group uses interest rate derivatives:

- to implement the interest risk strategy within the requirements and limits defined by the S-ALCO
- to manage the sensitivity of the valuation result and the revaluation reserve
- to hedge the economic risk position, thereby taking the accounting treatment into consideration

BAWAG Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to mitigate market risks:

Micro fair value hedge
Hedging of financial assets or financial liabilities against changes in their fair value. The decision on instruments to be assigned to micro hedge accounting is made in the context of the overall interest rate risk position.

Portfolio fair value hedge ("EU carve-out"):
BAWAG Group has identified sight deposits in euros as a portfolio that is to be protected against interest rate risks. These deposits are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge using a bottom layer approach. At the end of 2022, approximately 39% (2021: 29%) of the total volume of sight deposits was allocated to a portfolio fair value hedge.

In addition, contractually agreed interest rate caps and/or floors embedded in financial assets (e.g. loan receivables or securities) or liabilities (e.g. savings deposits) are designated to portfolio fair value hedge accounting in order to mitigate changes in the fair value of these instruments resulting from changes in interest rates. The decision on the amount to be designated to portfolio fair value hedge accounting is determined using a bottom layer approach and made in the context of the overall interest rate risk position and limit framework.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point (0.01%). The following table depicts BAWAG Group's interest rate risk sensitivities as of 31 December 2022 on the basis of the PVBP concept:

Interest rate sensitivity – total economic risk position

31.12.2022 in € thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	1	82	(92)	323	(380)	(441)	(507)
USD	5	(29)	2	(5)	15	(3)	(15)
CHF	(20)	11	12	–	–	(3)	–
GBP	3	11	9	5	4	2	34
Other currencies	(3)	(2)	(1)	–	–	–	(6)
Total	**(14)**	**73**	**(70)**	**323**	**(361)**	**(445)**	**(494)**

31.12.2021 in € thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	(173)	(27)	(89)	(56)	517	(198)	(26)
USD	23	(29)	(23)	(9)	24	(8)	(22)
CHF	(3)	4	(2)	1	(5)	0	(4)
GBP	15	14	(0)	(1)	(0)	7	36
Other currencies	(4)	(5)	(0)	(0)	(0)	0	(10)
Total	**(141)**	**(43)**	**(114)**	**(66)**	**535**	**(198)**	**(27)**

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 € 310 thousand on 31 December 2022 (average 2022: plus € 202 thousand, 31 December 2021: plus € 44 thousand). For the fair value through other comprehensive income assets, the sensitivity amounted to plus € 104 thousand (31 December 2021: minus € 209 thousand).

Furthermore, a value-at-risk calculation for BAWAG Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Scenario analysis Interest rate sensitivity – total economic risk position

The table below illustrates the interest rate risk sensitivity of the total economic risk position assuming a parrallel interest rate shift of +/- 200 basis points.

31.12.2022 in € million	(200)bp	(100)bp	(50)bp	(25)bp	+25bp	+50bp	+100bp	+200bp
EUR	221	91	39	19	(18)	(36)	(74)	(124)
USD	(6)	(4)	(2)	(1)	1	2	4	7
CHF	4	1	0	0	0	0	1	2
GBP	(10)	(5)	(2)	(1)	1	2	5	10
Others	2	1	0	0	0	0	(1)	(1)
Total	**211**	**83**	**35**	**17**	**(16)**	**(31)**	**(64)**	**(107)**

31.12.2021 in € million	(200)bp	(100)bp	(50)bp	(25)bp	+25bp	+50bp	+100bp	+200bp
EUR	178	87	41	22	(24)	(50)	(105)	(178)
USD	40	10	0	(1)	2	5	13	25
CHF	4	1	0	0	0	0	2	4
GBP	(2)	(2)	(2)	(1)	1	2	4	8
Others	4	2	1	0	0	0	0	0
Total	**223**	**98**	**40**	**20**	**(21)**	**(43)**	**(87)**	**(142)**

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by BAWAG Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of BAWAG Group along with the breakdown by accounting categories impacting the Profit or Loss Statement and other comprehensive income:

Credit spread sensitivity

in € thousand	31.12.2022	31.12.2021
Total portfolio	(2,192)	(2,541)
Financial assets at fair value through profit or loss	(7)	(3)
Financial assets at fair value through other comprehensive income	(670)	(1,380)
Financial assets at amortized cost	(1,515)	(1,159)

The risk indicators “value-at-risk” and “expected shortfall” are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for BAWAG Group as a whole in the ICAAP and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by back testing.

FX risk in the banking book

The extent of open foreign exchange positions in BAWAG Group's banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in € thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	(337)	337	58	(58)	1,081	(1,081)	(1,229)	1,229

For managing FX risks, BAWAG Group also applies hedge accounting pursuant to IAS 39.

Cash flow hedge
FX risk from the future credit spread income of BAWAG Group's foreign currency portfolios is mitigated by the implementation of a cash flow hedge for FX margins. BAWAG Group applies a bottom layer approach designating defined amounts of cash flows for a defined period of time as the hedged item. Currently, cash flows resulting from margin income denominated in GBP, USD and CHF are hedged via FX forwards. The following target hedge ratios for future FX credit spread income apply:

- USD: 90% of USD credit spread income for next 60 months
- GBP: 70% of GBP credit spread income for next 36 months
- CHF: 70% of CHF credit spread income for next 36 months

BAWAG Group also applies the cash flow hedge for cross currency basis risk. The hedged risk is the FX risk of future cash flows of notional and indicator-based payments ("reference rate"; for example cash flows based on LIBOR rates) including FX-related lending spreads of BAWAG Group's foreign currency portfolios. BAWAG Group has implemented a bottom layer approach in regard to the notional/tenor of the hedged item. Therefore, the amounts of hedged risk and hedging instruments (cross currency swaps) must be adjusted and rolled over continuously in regard to replaced/new business up to the dedicated bottom layers in order to meet the Bank's hedging requirements. At the end of 2022, approximately 98% and 78% (2021: 70% and 83%) of the total notional available have been designated to cash flow hedge accounting for USD and GBP, respectively. In the fourth quarter of 2022, the cash flow hedge for cross currency basis risks was also implemented for the CHF portfolio. The ratio of CHF assets dedicated to hedge accounting to total CHF assets is 90% as of 31 December 2022.

Net investment hedge
A foreign currency exposure also arises from the Group's net investment in a subsidiary that has CHF as its functional currency and in a subsidiary that has USD as its functional currency. The risk arises from the fluctuation in spot exchange rates between the CHF and the EUR and between the USD and the EUR, which causes the amount of the net investment to vary.

The hedged risk in the net investment hedge is the risk of a weakening CHF against the EUR or the USD against the EUR that will result in a reduction in the carrying amount of the Group's net investment in the CHF functional currency subsidiary or in the USD functional currency subsidiary, respectively.

The full amount of the Group's net investment in its CHF functional currency subsidiary is hedged by a foreign exchange swap between EUR and CHF (notional amount: CHF 45 million; 2021: CHF 55 million), which mitigates the foreign currency risk arising from the subsidiary's net assets. Part of the Group's net investment in its USD functional currency subsidiary is hedged by a foreign exchange swap between EUR and USD (notional amount USD: 108 million; 2021: USD 97 million), which mitigates the foreign currency risk arising from the subsidiary's net assets. The foreign exchange swaps are designated as hedging instruments for the changes in the value of the net investment that is attributable to changes in the EUR/CHF and EUR/USD spot rates.

The Group's policy is to hedge the net investment up to 100% of the net investment amount.

Concentration risk

All essential risk factors are incorporated within VaR models/scenario analyses and stress test calculations, which are applied to all trading and banking book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatilities) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also broken down, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

58 | Liquidity risk

Liquidity risk is the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk) or only being able to meet these obligations at higher refinancing costs (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold or that doing so is only achievable at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The objective of BAWAG Group's liquidity risk management framework is to ensure that BAWAG Group can fulfill its obligations at all times and to manage liquidity risk within the risk appetite.

Liquidity risk management framework

In accordance with the ECB's Supervisory Review and Evaluation Process (SREP), BAWAG Group has implemented an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which forms the basis for the Group-wide assessment, management and monitoring of liquidity risks.

The Management Board defines the liquidity and funding risk strategy as well as the overall liquidity risk appetite. At least once per year, the Management Board reviews the ILAAP and approves the Group-wide limit framework and funding plans.

The main decision-making body for liquidity risk is the Strategic Asset Liability Committee (S-ALCO), in which all board members are represented. The S-ALCO is informed at least once a month about the performance compared to the risk metrics.

Treasury is responsible for managing the overall liquidity and funding position. Risk Controlling acts as an independent risk control function and is responsible for reviewing the ILAAP framework.

Liquidity strategy

BAWAG Group's overall strategy has an explicit commitment to a deposit-based funding strategy. Retail and corporate savings products have been the core part of the funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. The continuous shift of BAWAG Group's assets towards collateralized products also increases the Bank's flexibility in secured funding markets. Consequently, covered bond funding is of growing importance in the overall funding mix.

Liquidity management

Liquidity management is performed on a Group-wide basis.

For managing short-term liquidity, a 30-day liquidity forecast is prepared daily, which allows for the close tracking and management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared and reported monthly to the S-ALCO. As part of the forecast process, which takes scenario analyses for planned measures and assumptions about customer behavior into account, the development of all major liquidity risk metrics is projected based on the underlying business plans to ensure compliance with the overall risk appetite.

Long-term liquidity management is conducted as part of the annual planning process for the coming five years. Strategic measures are also analyzed during the course of the year.

Liquidity stress testing

Liquidity stress testing and scenario analyses are applied to evaluate BAWAG Group's liquidity position, determine the limit framework and calibrate the liquidity buffers. They complement the operational liquidity management and the mid- to long-term liquidity strategy.

Stress testing is conducted at the BAWAG Group level and the subsidiaries level and covers scenarios that differ in length and severity (systemic stress, idiosyncratic stress, combined stress). The results of the stress tests are reported to the S-ALCO monthly.

Liquidity buffer

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The liquidity buffer is kept as a preventive measure against liquidity risk. The liquidity buffer consists of a portfolio of liquid assets which can be used to generate cash in a stress situation in order to prevent the illiquidity of the Bank. BAWAG Group's liquidity buffer only includes assets that can be liquidated with minimal execution risk within 30 days. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the liquidity buffer composition based on the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in € million	31.12.2022	31.12.2021
Balances at central banks	11,744	12,000
Securities eligible for Eurosystem operations	1,059	371
Other assets eligible for Eurosystem operations	59	53
Short-term liquidity buffer	**12,862**	**12,424**
Other marketable securities	2,142	2,867
Total	**15,003**	**15,291**

Maturity analysis of contractual undiscounted cash flows of financial liabilities

31.12.2022 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(7,017)	(264)	(23)	(4,919)	(1,185)	(626)
Deposits from customers	(34,360)	(31,927)	(522)	(897)	(928)	(87)
Debt securities issued	(12,540)	(126)	(88)	(232)	(3,828)	(8,266)
Subtotal	**(53,918)**	**(32,317)**	**(633)**	**(6,049)**	**(5,941)**	**(8,979)**
Derivative liabilities	(3,979)	(50)	(119)	(619)	(2,064)	(1,127)
Other off-balance-sheet financial obligations	(2,235)	(2,235)	–	–	–	–
Total	**(60,132)**	**(34,601)**	**(752)**	**(6,668)**	**(8,005)**	**(10,106)**

31.12.2021 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(7,436)	(218)	(14)	(52)	(6,496)	(656)
Deposits from customers	(35,202)	(32,586)	(277)	(549)	(1,264)	(526)
Debt securities issued	(8,223)	(50)	(528)	(67)	(1,960)	(5,619)
Subtotal	**(50,861)**	**(32,853)**	**(818)**	**(669)**	**(9,721)**	**(6,800)**
Derivative liabilities	(919)	(281)	(25)	(37)	(81)	(495)
Other off-balance-sheet financial obligations	(2,097)	(2,097)	–	–	–	–
Total	**(53,877)**	**(35,231)**	**(843)**	**(706)**	**(9,802)**	**(7,295)**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial liabilities. They are assigned to time buckets on the basis of their contractual maturities. Deposits with non-defined maturity profiles are presented in the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in a strong liquidity coverage ratio (LCR) of 225% at the end of 2022 (31.12.2021: 239%). BAWAG Group thereby significantly exceeds the regulatory LCR requirement.

The year 2022 was characterized by a solid liquidity position with stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Considering the stability of retail deposits that was proved during the COVID-19 crisis and the outbreak of the Russian-Ukrainian crisis, the funding strategy continues to be focused on this funding source.

As of 31 December 2022, BAWAG Group utilized € 5.3 billion of funding under the ECB's TLTRO III facility (after repayment of € 1.0 billion in November 2022). In addition to the stable deposit base, in 2022 the Bank successfully placed € 4 billion in mortgage covered bonds (€ 500 million in January; € 750 million in April, June and November; € 1.25 billion in August) and CHF 300 million in green senior preferred bonds, which again proved BAWAG Group's good capital market access and the positive perception among investors.

59 | Operational risk

Operational risk is present in virtually all of the company's transactions and activities and is defined as the risk of loss resulting from inadequacy or failure of internal processes, people, systems or external events. The definition of operational risk explicitly includes legal risk, compliance risk, model risk, fraud risk, conduct risk, ESG risk, third-party risk, outsourcing risk and information and communication risk. Information/cyber security and the protection including the appropriate use of customer data remain important factors in retaining customer trust.

Governance:
A clear organizational structure and authorization levels form the basis of operational risk governance. Operational risks are managed by established Group-wide processes for loss data collection via OpRisk Monitor (ORM), a yearly risk assessment process for all divisions and subsidiaries, uniform materiality and risk assessment of outsourcing activities, a sound product implementation process (PIP) incl. an ESG statement and monthly key risk indicators. By exceedance of defined thresholds, e.g. red KRI, high risks identified, mandatory measures for risk mitigation are agreed and monitored. In addition, BAWAG Group works continuously to bolster its defenses against cyberattacks. The selected security approach is based on regulatory requirements and the security policy set. A consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) as well as a security control set including a variety of organizational and technological measures are in place to manage and mitigate BAWAG Group's operational risk.

Risk identification, assessment and mitigation:
The losses resulting from operational risk are collected in a centrally administrated, web-based database within clearly defined regulations and processes. The collected data are analyzed to identify patterns/clusters and faulty processes.

Using the RCSAs framework, all organizational units and subsidiaries identify and assess their material processes, operational risks, the risk of disregarding regulatory requirements and the effectiveness of their control measures on a yearly basis via a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is mandatory.

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

According to Austrian Banking Act section 39 paragraph 6, credit institutions must define appropriate criteria and procedures in writing taking into consideration the nature, scale and complexity of their business activities. In addition, a regular update is necessary to avoid the risk of disregarding of guidelines as well as to reveal the associated risks and to keep such risks to a minimum ("BWG compliance").

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

BAWAG Group continues to invest in the awareness of staff and resilience and security of systems, ensuring that customer data remains safe despite the significant pace of change in technological trends. In addition, the Group also focuses on supporting suppliers in meeting the respective requirements for cybersecurity in our supply chain. The Management Board receives regular reports about current OpRisk developments, as well as activities to protect and assess the cybersecurity in the Non-Financial Risk and ESG Committee (NFR & ESGC).

Risk quantification:
BAWAG Group applies the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 CRR to assess operational risk. However, the realized operational risk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The operational risk RWAs are assigned to the segments based on revenues.

For the purpose of ICAAP, a standardized approach is used to calculate the normative and economic perspective for OpRisk. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms. The SMA is calculated based on the business indicator, business indicator component and internal loss multiplier. The method of calculation used is based exactly on the guidelines and covers the expected und unexpected loss.

The normative perspective is based on the P&L impact and qualitative scenarios based on the historic OpRisk losses and the consideration of the business strategy. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms.

60 | ESG risk

Sustainability risks are environmental, social or governance events or conditions which may potentially have significant negative impacts on the assets, financial and earnings situation or reputation of a supervised entity.

The interaction of ESG risks and other material risk types is evaluated as part of the overarching risk self-assessment (RSA). BAWAG maintains low exposure (<2%) to moderate-high to high-risk ESG industries and countries and has no significant oil and gas or other direct fossil fuel exposure as confirmed by ECB during the climate stress test in 2022.

The management of restricted and prohibited sectors as part of the underwriting and loan origination process is the primary element in maintaining a low exposure to potential ESG risks. Additionally, as part of our governance framework, ESG risk management is embedded in our key policies and processes, ensuring an appropriate consideration of ESG risks within outsourcing management, product introductions and evaluation of new credit extensions. Various initiatives such as learning programs, newsletters, etc. support the implementation of the topic in the organization.

The regulatory environment related to ESG is extensive and developing without clear standards for the industry. However, BAWAG expects to meet the changing regulatory requirements within designated time targets.

BAWAG Group is committed to mitigating negative impacts on our business activities and also to support the transition to a greener economy. ESG underpins BAWAG Group’s strategy, driving responsible, sustainable and profitable growth.

There are key deliverables regarding the framework, with the biggest challenge being the data availability. The current ESG position can be described as follows:

- **ESG integrated in organization:** A defined organizational unit responsible for ESG risk is supported by nominated ESG SPoCs in relevant divisions and all subsidiaries. Committee structures on the Supervisory and Management Board level as well as on the operative working level were implemented and started in 2021 and continued in 2022. ESG risk management is embedded in our key policies and processes, ensuring an appropriate consideration of ESG risks within outsourcing management, product introductions, etc. BAWAG Group took measures to ensure it has the right skills and governance in place.

- **Awareness and training:** Numerous awareness initiatives such as townhall events, newsletters, self-learning programs and many more ensure that the strategy for managing ESG risks is recognized and put into practice across the organization.

- **General ESG strategy defined with specific 2025 targets:** ESG targets were integrated into the business and risk strategy. A separate ESG framework and policy was introduced and ESG-related considerations were part of business planning. An enhanced ESG strategy has been defined.

- **Internal reporting:** The data collection capabilities and infrastructure were set up and further developed introducing an automated interface for the collection of energy performance certificates. Dedicated ESG reports are a regular part of the Non-Financial Risk & ESG Committee, and the ERM risk report has been enhanced with ESG information.

- **Risk measurement:** The interaction of ESG risks and other material risk types is evaluated as part of the overarching risk self-assessment (RSA). Internal capital is allocated for ESG risk in the ICAAP assessment and as part of regular reporting. A dedicated scenario has been defined within BAWAG Group's internal stress testing framework. Within BAWAG Group's portfolio steering framework, both high ESG-risk sectors and countries are limited accordingly, maintaining a very low exposure to high-risk ESG industries and de minimis oil and gas exposure.

  - **Corporates, Real Estate & Public Sector**: Industry-related ESG risk mainly driven by transition risk, e.g. industries facing challenges adapting to the zero emission targets. Overall, the ESG industry risk is low to moderate with deminimis high risk exposures. Restricted and prohibited exposures are very low. In particular, the management of restricted and prohibited sectors as part of the underwriting and loan origination process is essential in this regard keeping exposure to high emitting industries at a very low level.

Activity	P/R	Exposure	
		€ million	%
Gambling	R	194	<0.4%
Animal testing (non-medical)	R	21	<0.1%
Mining of oil/tar sands	R	1	<0.1%
Others	P/R	0	0.0%
Total		**216**	**<0.4%**

  - **Retail & SME:** Operating in developed markets with high legal and environmental standards, BAWAG Group could originate green mortgages in 2021 and issued its inaugural green bond benchmark. The use of proceeds is dedicated to financing energy-efficient residential housing according to standards defined the delegated act on the EU taxonomy.

61 | Other risks

Reputation risk

Reputation risk is defined as the potential damage or harm to the Bank's image in the eyes of the interested public (capital investors/lenders, employees, customers, the press, etc.) regarding competence, integrity and reliability. For the quantification of the reputation risk, the Group follows a combined approach – in a first step, a simplified VaR model is applied for the calculation of a potential risk on the asset side. In a second step, in order to cover the potential overall risk stemming from reputational risk, an outflow of savings deposits and an associated higher refinancing requirement and consequently increasing refinancing costs are taken into account (liability side). As the Group believes that the liability side reacts much more sensitively to reputation risk, a corresponding weighting of the quantification results was carried out.

The Group actively avoids occurrence of reputation risks with a sound risk management culture, ongoing improvement of risk management and compliance with internal and external regulations. Furthermore, the Group has established a sound complaint management system, and closely follows potential fraud and other operational risk events which might affect public perception.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential write-offs on the carrying amount of investments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. Participation risk is considered non-material.

Impairment tests are conducted every year to validate the values of the equity investments in BAWAG Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. P&L, balance sheet and cash flow) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the entity based on BAWAG Group's shareholding is then compared with the carrying amount of the investment.

In addition to the procedure described above, there are simplified procedures for very small investments or if the book value is covered by the proportionate equity or other value indicators, such as the substance value in the case of real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Credit Risk Management team.

Business risk

Business risk refers to the risk that the Bank's business strategy does not adequately reflect trends in external factors, is not effectively executed or fails to respond in a timely manner to external environments or changes in stakeholder behaviors and expectations. The Group faces significant risks due to the changing regulatory and competitive environments in the financial services sector. The Bank strives to play an active role in the current transformation of the European banking industry. Austria as our core market builds the basis for further organic and inorganic growth in the DACH/NL region and the United States. The multi-brand and multi-channel distribution approach together with targeted use of analytics ensures the capability to adapt product offerings to changes in customer behavior and needs at an early stage. The Group assesses and monitors the impact of the business risk implications of new business, product entries and other business initiatives as part of the business planning processes and stress testing scenarios.

Real estate risk

Real estate risk results from a negative change in value and/or proceeds from proprietary real estate for BAWAG Group. With regard to the Risk Self-Assessment Process, the Group's real estate portfolio is analyzed in detail regarding its assets as well as investment properties and discussed with the responsible risk managers if any losses are expected within the upcoming year.

Pension risk

Pension risk refers to the risk that the provisions for pensions are not sufficiently high to cover potential losses arising from differences between actual pensions and a specific target, which could be related to a specific replacement rate, pension pay or life expectancy. Pension provisions of the Group are calculated by an external actuary according to the projected unit credit method. All actuarial assumptions used are based on past experience and are adjusted for expected changes.

The discount factor is based on current interest rates. Risks related to movements in the discount factor are considered in the calculation of market risk.

Main risks for the Group relating to pension obligations apart from interest rate risk include higher than expected salary increases and changes in demographical assumptions.

The majority of new pension plans are defined contribution plans where the final risk is with a pension fund. Obligations from defined benefit plans relate primarily to pension plans implemented in the past and the majority of beneficiaries is already in retirement. As such, there is limited risk that salary increases for active employees will have an impact on the provision.

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

62 | Fiduciary assets

in € million	31.12.2022	31.12.2021
Fiduciary assets	**166**	**173**
Receivables from credit institutions	–	–
Receivables from customers	166	173
Fiduciary liabilities	**166**	**173**
Deposits from credit institutions	1	2
Deposits from customers	165	171

63 | Breakdown of securities pursuant to the Austrian Banking Act (BWG)

The following tables break down securities in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2022 and as of 31 December 2021 (IFRS figures):

		Listed			
in € million	Not listed	Total	At amortized cost	Other measurements	BAWAG Group Total 2022
Bonds and other fixed income securities	2,015	3,790	1,669	2,121	5,805
Shares and other variable income securities	232	3	–	3	235
Shares in associates and other shares	230	–	–	–	230
Shares in non-consolidated subsidiaries	26	–	–	–	26
Total securities	**2,503**	**3,793**	**1,669**	**2,124**	**6,296**

		Listed			
in € million	Not listed	Total	At amortized cost	Other measurements	BAWAG Group Total 2021
Bonds and other fixed income securities	1,818	3,972	1,320	2,652	5,790
Shares and other variable income securities	275	196	–	196	471
Shares in associates and other shares	216	–	–	–	216
Shares in non-consolidated subsidiaries	23	–	–	–	23
Total securities	**2,332**	**4,168**	**1,320**	**2,848**	**6,500**

The securities shown in the tables are mainly non-current assets.

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG amounted to € 25 million (2021: € 36 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG amounted to € 51 million (2021: € 20 million). The difference between carrying amounts and higher market values for the purposes of section 56 paragraph 4 BWG amounted to € 0 million (2021: € 0 million).

Own issues amounting to a repayment amount of € 287 million and bonds and other fixed-income securities amounting to a repayment amount of € 713 million will come due in 2023 under the corresponding contracts.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are bullet bonds and some include issuer call options. Supplementary and subordinated capital bonds are primarily sold to major domestic and international investors. In the past, there have also been placements to private investors.

As of 31 December 2022, the average weighted nominal interest rate on supplementary and subordinated capital bonds issued by BAWAG P.S.K. AG was 4.37% (2021: 4.37%), and the average remaining term to maturity was 4.4 years (2021: 5.4 years). One supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 2.375% and matures in 2029. The other supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 1.875% and matures in 2030.

64 | Collateral received

Different types of collateral have been pledged to BAWAG Group as part of its business transactions. To reduce credit risk for derivative instruments, the Bank received consideration (collateral deals) in the amount of € 315 million (2021: € 423 million) and paid consideration (collateral deals) in the amount of € 1,010 million (2021: € 126 million). The table below does not include collateral for derivative instruments.

in € million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	Total 2022
Financial collateral			
Stocks	82	0	82
Cash deposits	163	405	568
Bonds	1	0	2
Real estate			
Commercial properties	595	14	609
Private properties	11,154	180	11,334
Personal collateral			
Guarantees	4,295	37	4,332
Credit derivatives	360	–	360
Other forms of collateral			
Assignation of claims	0	1	1
Life insurance policies	11	2	12
Collateral received	**16,662**	**639**	**17,300**

65 | Human resources

Headcount – salaried employees

	31.12.2022	31.12.2021
Number of employees on reporting date	3,305	3,716
Average number of employees	3,438	3,764

Full-time equivalents – salaried employees

	31.12.2022	31.12.2021
Number of employees on reporting date	2,856	3,207
Average number of employees	2,964	3,227
Active employees[1)]	2,558	2,800

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

66 | Country-by-country reporting

2022	Revenues from third party sales in € million	Revenues from intra-group transactions with other tax jurisdictions in € million	Profit/loss before tax in € million	Tangible assets other than cash and cash equivalents in € million	Corporate income tax paid on a cash basis in € million	Corporate income tax accrued on profit/loss in € million	Number of employees in FTE
Austria	1,124.8	46.4	1,146.2	265	(152.7)	(67.3)	2,458
France	12.1	-	7.5	-	-	-	-
Germany	118.3	(0.3)	13.9	19	(14.6)	(16.6)	333
Great Britain	47.3	-	15.4	25	(4.9)	(4.9)	26
Ireland	(0.0)	-	(1.9)	-	-	-	-
Nether-lands	0.0	(1.9)	0.7	41	(1.2)	(0.2)	-
Switzer-land	12.6	-	3.2	1	(1.0)	(0.8)	26
United States	15.3	(2.9)	2.5	1	-	(0.5)	13
Subtotal	**1,330.4**	**41.3**	**1,187.5**	**352**	**(174.3)**	**(90.3)**	**2,856**
Recon-ciliation	-	-	(760.7)	-	-	-	-
Total	**1,330.4**	**41.3**	**426.8**	**352**	**(174.3)**	**(90.3)**	**2,856**

2021	Revenues from third party sales in € million	Revenues from intra-group transactions with other tax jurisdictions in € million	Profit/loss before tax in € million	Tangible assets other than cash and cash equivalents in € million	Corporate income tax paid on a cash basis in € million	Corporate income tax accrued on profit/loss in € million	Number of employees in FTE
Austria	979.5	88.2	852.7	271	(27.5)	(115.6)	2,703
France	20.1	-	13.5	-	-	-	-
Germany	134.7	0.2	182.1	29	(13.0)	(30.4)	408
Great Britain	71.9	-	36.9	26	(4.1)	(2.8)	24
Ireland	(0.2)	-	(20.9)	20	-	-	46
Liechten-stein	-	0.2	3.3	-	-	-	-
Luxem-bourg	(0.4)	-	(0.5)	-	-	(0.2)	-
Nether-lands	(0.0)	(1.6)	1.8	48	(0.8)	(0.7)	-
Switzer-land	11.4	-	1.4	1	(0.8)	(0.3)	27
United States	3.3	(1.3)	0.4	-	-	-	-
Subtotal	**1,220.4**	**85.7**	**1,070.5**	**394**	**(46.1)**	**(150.0)**	**3,207**
Recon-ciliation	-	-	(470.1)	-	-	-	-
Total	**1,220.4**	**85.7**	**600.4**	**394**	**(46.1)**	**(150.0)**	**3,207**

The names of the resident companies can be found in Note 49. The primary activities of the organization can be found on in Note 1 and the Segment Reporting. The number of employees is calculated as the number of full-time equivalents as at 31 December 2022 and 31 December 2021, respectively.

In the current and the previous reporting period, BAWAG Group did not have any offshore jurisdictions as defined in the EU list: www.consilium.europa.eu/media/52208/st12519-en21.pdf Annex I.

The differences between nominal and effective tax rates of the respective countries result mainly from Austrian group taxation, tax loss utilizations, effects of accounting as well as deferred taxes and taxes from former periods.

67 | Trading book

in € million	**31.12.2022**	31.12.2021
Derivative financial instruments in the trading book (nominal value)	–	–
Trading book by volume	**–**	**–**

68 | Geographical regions

Gross income of BAWAG Group relates to the following geographical regions according to IFRS 8:

in € million	Austria	Western Europe[1)]	North America	Rest of the world	Total
Interest and similar income	594.5	387.1	281.8	46.0	1,309.4
Income from securities and equity interests	(0.7)	12.3	4.4	0.0	16.0
Fee and commission income	340.9	46.3	0.1	1.7	389.0
Gains and losses on financial instruments	(16.0)	18.4	(13.3)	(2.3)	(13.2)
Other operating income	43.5	44.2	0.0	0.0	87.7

1) Includes Germany.

69 | Other disclosures required by BWG and Austrian GAAP (UGB)

The Statement of Financial Position entry for Land and buildings includes land with a carrying amount of € 4 million (2021: € 4 million).

The Statement of Financial Position as of 31 December 2022 contains accrued interest on supplementary capital bonds in the amount of € 8 million (2021: € 8 million).

Expenses for subordinated liabilities amounted to € 36.8 million (2021: € 37.9 million).

Expenses for BAWAG Group's group auditor in the current financial year amount to € 2.0 million (2021: € 1.8 million) and comprise audit fees in the amount of € 1.9 million (2021: € 1.5 million), tax advisory fees of € 0.0 million (2021: € 0.1 million) as well as other advisory fees in the amount of € 0.1 million (2021: € 0.2 million).

As of 31 December 2022, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 0.56% (2021: 0.85%).

BAWAG Group uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG Group at https://www.bawaggroup.com/financial-results.

70 | Date of release for publication

The Group financial statements were approved by the Management Board for submission to the Supervisory Board on 27 February 2023. The Supervisory Board is responsible for reviewing and acknowledging the Group financial statements.

71 | Events after the reporting date

There were no major events after the reporting date.

27 February 2023

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O’Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management 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.”

27 February 2023

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O’Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

BOARDS AND OFFICERS OF BAWAG GROUP AG

MANAGEMENT BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2022

Anas ABUZAAKOUK
Chairperson of the Management Board of BAWAG Group AG from 19 August 2017

David O'LEARY
Member of the Management Board of BAWAG Group AG from 19 August 2017

Sat SHAH
Member of the Management Board of BAWAG Group AG from 19 August 2017

Enver SIRUCIC
Member of the Management Board of BAWAG Group AG from 19 August 2017

Andrew WISE
Member of the Management Board of BAWAG Group AG from 19 August 2017

Guido JESTÄDT
Member of the Management Board of BAWAG Group AG from 1 July 2021

SUPERVISORY BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2022

Chairperson

Egbert FLEISCHER
(from 12 December 2019,
Deputy Chairperson of the Supervisory Board of BAWAG Group AG from 15 September 2017 until 12 December 2019,
Member from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Deputy Chairperson

Kim FENNEBRESQUE
(from 12 December 2019,
Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Members

Frederick HADDAD
(Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked)

Adam ROSMARIN
(Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Tamara KAPELLER
(Member of the Supervisory Board of BAWAG Group AG from 14 September 2021 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Gerrit SCHNEIDER
(Member of the Supervisory Board of BAWAG Group AG from 14 September 2021 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Works Council Delegates

Verena SPITZ
(from 25 October 2017)

Konstantin LATSUNAS
(from 1 March 2021)

Beatrix PRÖLL
(from 14 September 2021)

COMMITTEES OF BAWAG GROUP AG AS OF 31 DECEMBER 2022

Risk and Credit Committee

Frederick HADDAD
Chairperson

Kim FENNEBRESQUE

Tamara KAPELLER

Adam ROSMARIN

Verena SPITZ
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Audit and Compliance Committee

Gerrit SCHNEIDER
Chairperson

Egbert FLEISCHER

Frederick HADDAD

Adam ROSMARIN

Verena SPITZ
Works Council Delegate

Konstantin LATSUNAS
Works Council Delegate

Nomination and Remuneration Committee

Egbert FLEISCHER
Chairperson

Kim FENNEBRESQUE

Frederick HADDAD

Adam ROSMARIN

Verena SPITZ
Works Council Delegate

Konstantin LATSUNAS
Works Council Delegate

ESG Committee

Tamara KAPELLER
Chairperson

Egbert FLEISCHER

Gerrit SCHNEIDER

Verena SPITZ
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 Group AG, Vienna, Austria** and its subsidiaries ("the Group"), which comprise the consolidated Statement of Financial Position as at 31 December 2022, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements comply with the legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor’s Responsibilities" section of our report. We are independent of the audited Group, in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor’s report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Recoverability of Receivables from Customers Measured at Amortized Cost

The Management Board describes the procedure for recognizing loan loss provisions in the notes to the consolidated financial statements in the risk report.

Risk to the Consolidated Financial Statements

Receivables from customers at amortised cost ("receivables from customers") amount to EUR 35 bn in the consolidated statement of financial position and relate mainly to the segments "Retail & SME" and "Corporates & Public".

As part of credit risk management, the Group evaluates whether loan loss provisions need to be recognized. This includes evaluating whether customers are able to meet the contractual repayment obligation in full.

The calculation of loan loss provisions for individually significant defaulted receivables from customers is based on an analysis of the expected and scenario weighted future repayments. This analysis is subject to the assessment of the economic condition and performance of the respective customer, the evaluation of collateral and an estimate of the amount and timing of the repayments derived therefrom.

For defaulted receivables from customers not individually significant, the calculation of the loan loss provisions is based on statistically determined common risk attributes. These loan loss provisions are calculated based on the default days or the occurrence of a legal case using statistical loss given default rates.

For non-defaulted receivables from customers, a loan loss provision is recognized for the expected credit loss ("ECL") according to IFRS 9 as well. The determination of ECL requires estimation and assumptions. These comprise rating-based probabilities of default and loss given default, which take information about current conditions and forecasts of future economic conditions as well as transfer between stages into account. In order to adequately take the current volatile economic environment which is characterized by high inflation and significantly increased interest rate levels into account, the loan loss provisions calculated using the ECL model are increased ("managmeent overlay").

This results in the risk for the consolidated financial statements that the calculation of loan loss provisions taking the management overlay into account, is subject to significant estimation and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

Our Audit Approach

In testing the recoverability of receivables from customers we performed the following significant procedures:

- We analysed the existing documentation for monitoring and recognition of loan loss provisions for receivables from customers and assessed whether these are suitable to identify events of default and to adequately determine the recoverability of these receivables from customers. Additionally. we compiled the relevant key controls relevant to our audit of the consolidated financial statements, assessed their design and implementation, and tested their effectiveness on a sample basis.

- Based on a sample of receivables from customers, we examined whether indicators of default exist. Sampling was performed both random and risk-oriented, taking in particular rating levels and industries with an increased risk of default into account. Potential effects of COVID-19 were also considered.

- In case of default of individually significant receivables from customers, we assessed the Group's assumptions for conclusiveness, consistency as well as timing and amount of the expected repayments on a sample basis.

- For individually non-significant defaulted and non-defaulted receivables from customers for which the loan loss provision was determined statistically, we analysed the documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the internal validation, the models and their mathematical functionalities as well as the parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts.

- In particular, we assessed the effects the current volatile economic environment on the method used to determine the default probabilities. Additionally, we analysed the selection and measurement of estimates and scenarios concerning the future and verified their use in the estimation of parameters. We evaluated the derivation of and rationale for the management overlay recorded in 2022 and the underlying assumptions regarding their appropriateness.

- We verified the mathematical accuracy of the loan loss provisions by means of approximation of the statistically determined loan loss provisions. For this purpose, we involved our financial risk management specialists.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements pursuant to Section 245a UGB and Section 59a BWG and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance but provides no guarantee that an audit conducted in accordance with AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.

- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.

- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with Austrian company law, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the group management report.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 27 August 2021 and were appointed by the supervisory board on 29 September 2021 to audit the consolidated financial statements of Company for the financial year ending 31 December 2022.

During the Annual General Meeting on 28 March 2022, we have been elected as auditors for the financial year ending 31 December 2023 and appointed by the supervisory board on 28 April 2022.

We have been auditors of the Company, without interruption, since the consolidated financial statements at 31 December 2015.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Para. 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner

The engagement partner is Mr Georg Blazek.

Vienna, 27 February 2023

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Georg Blazek
Wirtschaftsprüfer
(Austrian Chartered Accountant)

CORPORATE GOVERNANCE

MANAGEMENT BOARD

BAWAG GROUP'S DECLARATION OF COMMITMENT

In 2006, BAWAG P.S.K. made a (voluntary) commitment to apply the applicable provisions of the Austrian Code of Corporate Governance ("Code", accessible under http://www.corporate-governance.at). Following the listing of BAWAG Group in 2017, BAWAG Group declared its commitment to comply with the rules of the Code.

This is the (consolidated) Corporate Governance Report prepared in accordance with sections 243c and 267b of the Austrian Commercial Code (UGB).

Generally speaking, the Code is a set of self-regulation rules for listed Austrian companies and it contains rules based on compulsory legal requirements (L rules); rules that should be complied with, where deviations must be explained and justified in order for the company's conduct to conform with the Code (C rules, comply or explain); and rules that are recommendations, where non-compliance must not be disclosed or justified (R rules).

NO DEVIATIONS

BAWAG Group fully complies with all L rules and C rules of the Austrian Code of Corporate Governance.

Management BOARD MEMBERS AND ALLOCATION OF RESPONSIBILITIES

As of the date hereof, the Management Board of BAWAG Group and BAWAG P.S.K. was composed of the following members:

MANAGEMENT BOARD of BAWAG Group and BAWAG P.S.K. per 31 December 2022

Name	Function	Year of birth	Date of first appointment[1)]	End of current tenure
Anas ABUZAAKOUK	Chairperson	1977	19.08.2017	31.03.2026
Guido JESTÄDT	Member	1975	01.07.2021	31.03.2026
David O'LEARY	Member	1975	19.08.2017	31.03.2026
Enver SIRUCIC	Member	1982	19.08.2017	31.03.2026
Sat SHAH	Member	1978	19.08.2017	31.03.2026
Andrew WISE	Member	1971	19.08.2017	31.03.2026

1) Regarding BAWAG Group AG.

As of the date hereof, responsibilities among the Management Board members were allocated as follows:

Name	Responsibilities
Anas ABUZAAKOUK (CEO)	Technology Operations, HR & Corporate Affairs, Procurement, Real Estate & Facilities
Sat SHAH (Retail & SME, Deputy CEO)	DACH branch sales, specialty finance & SME lending, mortgages & consumer loans, payment solutions, retail operations, digital sales
Enver SIRUCIC (CFO, Deputy CEO)	Finance, Treasury, M&A, Austrian Corporates & Public Sector, Group Data Warehouse, ESG, Investor Relations, Regulatory Affairs
Andrew WISE (CIO)	International Corporate lending, Real Estate lending, US market
David O'LEARY (CRO)	Commercial & Retail Risk Management, Risk Modelling, Validation, Group Data Warehouse, ESG risk
Guido JESTÄDT (CAO)	Group Legal, Regulatory Affairs, Legal HR & Corporate Affairs
Entire Management Board	Internal Audit, Compliance, KYC & AML Office, Ethics

The following describes the Supervisory Board mandates and comparable functions of Management Board members as of the date hereof at other Austrian or foreign stock corporations, which are not fully consolidated in the consolidated financial statements. Members not listed in the following do not have any comparable functions:

Enver SIRUCIC

Name of the company	Function
BAWAG P.S.K. Versicherung AG	Chairperson of the Supervisory Board

MANAGEMENT BOARD MEETINGS AND COMMITTEES

Management Board Meetings / Extended Management Board Meetings

The Management Board of BAWAG meets on a weekly basis. BAWAG has also introduced Extended Management Board Meetings which are held approximately 8 times per year. In these all-day sessions, the Management Board and executive leaders of BAWAG discuss a variety of topics such as BAWAG's group strategy, the organizational design, M&A and integration, financial updates, technology developments, retail partnerships, the platform business, ESG-related topics, talent assessment and development, regulatory developments and key risk topics amongst other things.

The following committees exist at the level of BAWAG's Management Board:

- Strategic Asset Liability Committee (S-ALCO)
- Enterprise Risk Meeting (ERM)
- Credit Approval Committee (CAC)
- Non-Financial Risk and ESG Committee (NFR & ESGC)

The Management Board committees consist of all members of the Management Board and further voting and non-voting members of BAWAG's senior leadership team (e.g. BAWAG's ESG Officers). They are chaired by the CEO or the CRO. The following section describes the main responsibilities of these Management Board committees.

Strategic Asset Liability Committee (S-ALCO)

The Strategic Asset Liability Committee (S-ALCO) is in charge of strategic capital and liquidity planning as well as operational aspects of asset and liability management. In this capacity the S-ALCO approves interest and FX/ limit for trading and managed bank books. With respect to liquidity, capital and interest, the S-ALCO approves liquidity costs, capital costs and internal reference rates. It further determines parameters for measuring interest risk, liquidity risk and foreign exchange risk and monitors risk metrics by way of regular reports. The S-ALCO is chaired by the CEO and meets on a monthly basis.

Enterprise Risk Meeting

The main duties of the Enterprise Risk Committee (ERM) are risk limit setting for the overall bank, approval of the risk strategy and determination of the risk appetite, approval of capital allocation within the ICAAP framework. The Committee is further responsible for credit guidelines, strategies and reviews and approves policies, procedures and underwriting guidelines/models. The ERM is chaired by the CEO and meets on a monthly basis.

Credit Approval Committee

The Credit Approval Committee (CAC) decides on financing transactions above a certain threshold and on the approval of loan applications within the authorities defined in the Competence and Power Regulation. The committee is chaired by the CRO and meets weekly.

Non-Financial Risk and ESG Committee (NFR & ESGC)

The Non-Financial Risk and ESG Committee (NFR & ESGC) is in charge of non-financial risk and ESG related topics. In particular, it discusses the bank-wide non-financial risk assessment (as part of the Group Risk Strategy), significant outcomes of sub risk self-assessments, large-scale marketing campaigns, changes in regulatory requirements and topics with regards to cybersecurity and data privacy. Furthermore, the NFR & ESGC reviews and acknowledges reports on inter alia, operational risk, conducted product implementation processes, complaint management reports and regular reports on cybersecurity and data privacy matters. It also receives regular updates from BAWAG's ESG Officers on ESG related topics and discusses the groupwide ESG strategy. ESG-related topics discussed in the NFR & ESGC at Management Board level are subsequently presented to and reviewed by the ESG Committee which is established at Supervisory Board level. The NFR & ESGC is chaired by the CRO and meets on a quarterly basis.

COMPLIANCE

As a listed company, BAWAG Group AG is obliged to ensure the highest compliance standards.

The Compliance Office reports directly to the entire Management Board and the Audit and Compliance Committee. The key responsibilities of the Compliance Office are prevention of insider dealing and market manipulation and managing of conflicts of interest. The Compliance Policy ensures observation of legal and proper conduct obligations, as well as the identification and prevention of conflicts of interest.

In accordance with the Austrian Stock Exchange Act, personal trades in shares of BAWAG Group AG by members of the Management Board and Supervisory Board as well as their related persons are published on BAWAG Group's website.

SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

Per 31 December 2022, the Supervisory Board was composed of the following members:

SUPERVISORY BOARD of BAWAG Group per 31 December 2022

Name	Function	Year of Birth	Date of first appointment	Gender	End of current tenure
Egbert FLEISCHER	Chairperson	1957	15.09.2017	male	2)
Kim FENNEBRESQUE	Deputy Chairperson	1950	15.09.2017	male	2)
Frederick S. HADDAD	Member	1948	15.09.2017	male	1)
Adam ROSMARIN	Member	1963	15.09.2017	male	2)
Tamara KAPELLER	Member	1978	14.09.2021	female	2)
Gerrit SCHNEIDER	Member	1973	14.09.2021	female	2)
Verena SPITZ	Delegated by the Works Council	1970	25.10.2017	female	
Konstantin LATSUNAS	Delegated by the Works Council	1963	01.03.2021	male	
Beatrix PRÖLL	Delegated by the Works Council	1958	14.09.2021	female	

1) Until revoked.
2) Until the end of the Annual General Meeting in 2025

Independence of Supervisory Board Members

According Independence of Supervisory Board Members

According to the company's "Independency criteria for members of the Supervisory Board of BAWAG Group AG", a member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations to the company or its Management Board that constitute a material conflict of interests and are therefore suited to influence the behavior of the member. The Supervisory Board shall also follow the guidelines below when defining the criteria for the assessment of the independence of a member of the Supervisory Board:

- The Supervisory Board member has not been a member of the Management Board or Managing Director or a management-level staff of the company or a subsidiary in the two years prior to the appointment.
- The Supervisory Board member does not maintain or has not maintained in the past year any business relations with the company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but not for exercising functions in the bodies of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically mean the person is qualified as not independent.
- The Supervisory Board member has not acted as auditor of the company or has owned a share in the auditing company or has worked there as an employee in the past three years.
- The Supervisory Board member is not a member of the Management Board of another company in which a member of the Management Board of the company is a Supervisory Board member.
- The Supervisory Board member has not belonged to the Supervisory Board of the company for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with an entrepreneurial investment in the company or who represent the interests of such a shareholder.

- The Supervisory Board member is not a close family member (direct descendants, spouses, companions, parents, uncles, aunts, siblings, nieces, nephews) of a member of the Management Board of the company or of persons who are in a position described in the points above.

The following members are regarded as independent pursuant to C Rule 53:

Independence of Supervisory Board members

Name	Independent
Egbert FLEISCHER	YES
Kim FENNEBRESQUE	YES
Frederick S. HADDAD	YES
Adam ROSMARIN	YES
Tamara KAPELLER	NO
Gerrit SCHNEIDER	YES

Supervisory Board Mandates and Comparable Functions at Listed Companies

The following describes the Supervisory Board mandates and comparable functions of Supervisory Board members at listed companies in Austria and abroad as at the date hereof.

Members not listed in the following do not have any functions at listed companies.

Kim FENNEBRESQUE

Name of listed company	Function
Albertsons Companies, Inc.	Member
Ally Financial	Member
BlueLinx Holdings	Chairperson

Attendance of meetings of the Supervisory Board and its committees

The Supervisory Board members attended all of the meetings of the Supervisory Board and its committees (attendance rate of 100%).

Supervisory Board Activity Report

In 2022 the Supervisory Board convened for five virtual meetings and adopted three resolutions via circulars. With respect to the activities of the Supervisory Board reference is made to the respective paragraph in the report of the Chairperson included in this report.

The Supervisory Board has the following committees:

- Audit and Compliance Committee
- Risk and Credit Committee
- Nomination and Remuneration Committee
- ESG Committee

Audit and Compliance Committee

Name	Function
Gerrit SCHNEIDER	Chairperson
Egbert FLEISCHER	Member
Frederick S. HADDAD	Member
Adam ROSMARIN	Member
Verena SPITZ	Delegated by the Works Council
Konstantin LATSUNAS	Delegated by the Works Council

Decision Making Powers and Activity Report

The Audit and Compliance Committee reviews the company's accounts and the annual financial statements and monitors the company's internal control system as well as the independence and work of the external auditor. The Audit and Compliance Committee prepares the auditor selection process, receives regular reports on compliance/AML/cybersecurity/ethics and data security and data privacy topics and approves the annual audit plans of Internal Audit and the Compliance Office. The Head of Internal Audit, the Compliance Officer and the external auditor have direct access to the Chairperson and members of the Audit and Compliance Committee and, once a year, the external auditor holds a private session with the members of the Audit and Compliance Committee.

The Audit and Compliance Committee held four meetings. With respect to the activities of the Audit and Compliance Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

Risk and Credit Committee

Name	Function
Frederick S. HADDAD	Chairperson
Kim FENNEBRESQUE	Member
Adam ROSMARIN	Member
Tamara KAPELLER	Member
Verena SPITZ	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers and Activity Report

The committee advises the Supervisory Board on the current and future risk-bearing ability of the Group and monitors the effectiveness and efficiency of the risk management systems and compliance with the legal provisions and regulatory requirements. It receives quarterly risk reports (including reports on credit, market, liquidity and operational risks and complaint management) and prepares, on an annual basis, the risk planning guidelines and the risk strategy which are subsequently approved by the entire Supervisory Board.

The Risk and Credit Committee held four meetings. With respect to the activities of the Risk and Credit Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

Nomination and Remuneration Committee

Name	Function
Egbert FLEISCHER	Chairperson
Kim FENNEBRESQUE	Member
Frederick S. HADDAD	Member
Adam ROSMARIN	Member
Verena SPITZ	Delegated by the Works Council
Konstantin LATSUNAS	Delegated by the Works Council

Decision Making Powers and Activity Report

The Nomination and Remuneration Committee deals with Management Board succession planning and the regular Fit & Proper evaluation of Management Board and Supervisory Board members. The committee further deals with the general principles of the company's remuneration policy. It also monitors the remuneration policy pursuant to the Austrian Banking Act, remuneration practices and remuneration-based incentive structures pursuant to section 39c of the Austrian Banking Act. It also supports the Supervisory Board in preparing recommendations to the General Meeting with respect to new Supervisory Board candidates and the remuneration policies/reports pursuant to the Austrian Stock Corporation Act. It further discusses succession planning topics which are reported to the entire Supervisory Board.

The Nomination and Remuneration Committee held three meetings. With respect to the activities of the Nomination and Remuneration Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

ESG Committee

Name	Function
Tamara KAPELLER	Chairperson
Egbert FLEISCHER	Member
Gerrit SCHNEIDER	Member
Verena SPITZ	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers and Activity Report

The ESG Committee deals with the review of the group-wide ESG strategy and ESG targets and monitoring of their implementation and reviews regular updates on ESG-related topics. Furthermore, the committee advises the Supervisory Board regarding the current and future risk appetite and risk strategy relating to ESG-risks. It also monitors the effectiveness and the efficiency of the management of ESG risks (including risk control, risk policies, management reporting on ESG-risks) as well as the compliance with legal and regulatory requirements with regards to ESG topics.

The ESG Committee held three meetings. With respect to the activities of the ESG Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

REPORT FROM THE CHAIRPERSON OF THE SUPERVISORY BOARD

The Supervisory Board of BAWAG Group AG properly fulfilled all duties incumbent upon it by law, its Articles of Association and its Rules of Procedure. The Management Board informed the Supervisory Board of all material issues in a timely and comprehensive manner either in writing or verbally. In addition to periodic meetings, the Chairpersons of the Supervisory Board and the committees of the Supervisory Board discussed current business matters with the Management Board members. Further details regarding the composition of the Supervisory Board and its committees as well as their working procedures are disclosed further below.

SUPERVISORY BOARD

As of 31 December 2022, the Supervisory Board consisted of four female and five male members, resulting in a 44.4% quota in terms of female representation at the Supervisory Board. The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2021 and discussed the appointment of the external auditor for 2023.

Other material topics which the Supervisory Board dealt with were BAWAG Group's strategy and budget, the risk strategy and the mid-term plan and topics related to the board's self-evaluation and succession planning, both at the level of the Management Board as well as at the level of BAWAG's Senior Leadership Team. The Supervisory Board also dealt with the acquisitions of Idaho First Bank and the portfolio purchase from Sberbank as well as the integration of DEPFA and Hello bank! Austria. Furthermore, the Supervisory Board was regularly updated about all relevant developments and measures in connection with the Russia-Ukraine-crisis. It also received updates on the City of Linz litigation and the Recovery Plan and resolved on BAWAG's € 325 million share buyback program which was launched in July 2022. The Supervisory Board was also involved in connection with the stock participation programs which BAWAG rolled out in 2022 on a groupwide basis, i.e. the BAWAG Employee Participation Program 2022 as well as the BAWAG Matching Program 2022.

SUPERVISORY BOARD COMMITTEE MEETINGS

Audit and Compliance Committee

The Audit and Compliance Committee discussed the quarterly reports by Internal Audit and the Compliance Office as well as the 2023 audit plans of Internal Audit and of Compliance. The annual audit process for 2022 was also presented. Furthermore, regular updates on compliance/conduct including ethics and AML topics were given, including updates on cybersecurity, data security and data privacy. The external auditor as well as the Head of Internal Audit attended all meetings.

Risk and Credit Committee

The Risk and Credit Committee discussed the Group Risk Report, which includes the calculation of the risk-bearing capacity and reports on credit, market and operational risk. In addition, regulatory updates including reports on credit, market, liquidity and operational risk and complaint management and credit risk updates in light of the Russia-Ukraine-crisis as well as the risk planning guidelines were presented to the committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee approved amendments of the remuneration policy pursuant to the Austrian Banking Act and also prepared the remuneration report for the Supervisory Board and the Management Board which was presented to the General Meeting. In addition, the annual Fit & Proper assessment of the Supervisory Board and the Management Board members was performed. The Committee also dealt with BAWAG's organizational structure, gender diversity and succession planning topics, including the implementation of a succession planning policy which covers succession planning at the level of the Management Board as well as at the level of BAWAG's Senior Leadership Team. It has set the 2022 targets for the Management Board

ESG Committee

The ESG Committee which was established in 2021 discussed broad ESG updates which also included details on BAWAG's ESG organization, its ESG framework and the ECB questionnaires on climate-related and environmental risks.

All committees also reported their discussions and decisions to the entire Supervisory Board.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements and the consolidated annual financial statements for 2022 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungs-gesellschaft headquartered in Vienna. The audit revealed no reason for objections. The legal regulations were complied with in full, and an unqualified auditor's opinion was issued. After an in-depth discussion, the Supervisory Board approved and adopted the annual financial statements in accordance with Section 96 Para 4 Stock Corporation Act. In addition, the Supervisory Board reviewed the separate consolidated non-financial report. The consolidated financial statements were noted by the Supervisory Board.

In conclusion, I would like to express my sincere thanks to the Management Board as well as all employees within BAWAG Group on behalf of the entire Supervisory Board for their performance and sustained commitment in 2022.

February 2023

Egbert Fleischer
Chairperson of the Supervisory Board of BAWAG Group AG

(Consolidated) Non-Financial Report

(CONSOLIDATED) NON-FINANCIAL REPORT

GENERAL INFORMATION AND REPORTING BOUNDARIES

With the NaDiVeG (Sustainability and Diversity Improvement Act), the reporting obligations regarding non-financial information (environmental, social and employee issues, respect for human rights and the fight against corruption) in the management report was expanded and specified as of the 2017 financial year in implementation of EU Directive 2014/95/EU.

To meet the statutory requirement of disclosing non-financial information, BAWAG Group has decided to include the (consolidated) non-financial report in its annual report, thus fulfilling its obligations under sections 243b and 267a of the Austrian Commercial Code (UGB). BAWAG Group has drawn up this non-financial report in conformity with the Global Reporting Initiative (in accordance with GRI Standards), including industry-specific indicator sets for financial services – the report was prepared in accordance with the principles of accuracy, balance, clarity, comparability, completeness, sustainability context, timeliness and verifiability. The CSR Report is accompanied by the GRI Index (starting on page 339) and the UN Global Compact progress reports (page 349). In addition the requirements for disclosing information in accordance with the EU Taxonomy Regulation (Article 8) are fulfilled.

This report describes our concepts, non-financial risks and opportunities and (ongoing) measures, as well as the performance indicators used to manage and steer our key areas of action. In this context, we also explain the innovations and progress in the area of sustainability in 2022 and follow up on the CSR Report 2021.

Unless indicated otherwise, this report covers all operating entities of BAWAG Group as well as their brands.

Disclaimer:
We have taken the greatest care in collecting and processing all data and information provided in this report. Nevertheless, errors cannot be completely ruled out. If this report contains statements on future developments or expectations, these assumptions were made on the basis of the data and information available at the time of writing. Due to currently unforeseeable events, the statements made may therefore differ from actual events. We use gender-neutral terms such as “customers” and “employees” to refer to both women and men.

SUSTAINABILITY STRATEGY & GOVERNANCE

We take great pride in our work, doing what is right for our customers and employees, and being good stewards of our shareholders' capital. We are disciplined in our lending, we focus on risk adjusted returns and we believe that ESG underpins sustainable, longterm profitability and capital growth as we look to grow organically in our core markets as well as through M&A. Our sustainability strategy reflects our belief that long-term success requires a commitment to responsible practices that benefit all of our stakeholders and the environment.

2-13 SUSTAINABILITY GOVERNANCE

To us, it is important that sustainability and ESG-related topics are embedded throughout our organization and to have each employee contribute within his or her own responsibilities. The internal organizational structure was expanded during recent years to manage and monitor progress in the area of sustainability and ESG.

We monitor relevant parameters and initiatives in the Non-Financial Risk and ESG Committee, which is chaired by the CRO and attended by all other Management Board members and selected BAWAG senior staff (including BAWAG's ESG Officers) as well. The Non-Financial Risk and ESG Committee is responsible for the operational implementation of BAWAG Group's sustainability program and Group-wide ESG strategy and meets on a quarterly basis. The Non-Financial Risk and ESG Committee works with experts in various areas and departments to continuously advance BAWAG Group's commitment to sustainability. We have also established other platforms where ESG Officers and specific working groups discuss strategic priorities with respresentatives of the organization's divisions who also embed the topics within their teams. Due to the emerging importance of sustainability and ESG topics, our Supervisory Board established a dedicated ESG Committee at the Supervisory Board level.

ESG TARGETS

We are committed to addressing the immediate need to combat climate change across our business. However, the reality is today's actions will take time to have real impact on our climate. As a Retail-focused bank, we will support our customers as they look to reduce their carbon footprint. We are also committed to keeping our exposure to high-emitting GHG sectors low across our corporates portfolio.

Therefore, we have committed ourselves to tangible ESG targets, which we have embedded into our operating plans:

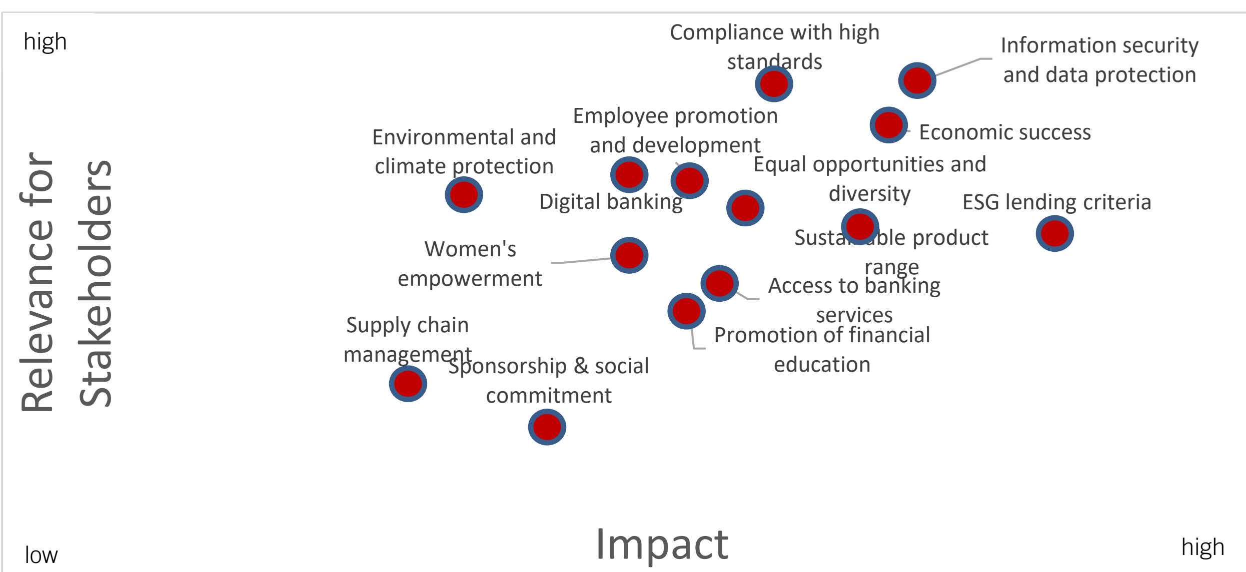
- We are targeting a **reduction of our own Scope 1 and 2 CO2 emissions of >50% by 2025** from the baseline of 2020 (baseline will be adjusted, e.g. in case of enhanced scope, M&A …).
- In terms of diversity, we have established a **female gender quota of 33%**, for both the Supervisory Board as well as the Senior Leadership Team, by 2025.
- To further promote the environmental transition, we are targeting annual new green lending business of over € 1.6 billion, doubling 2020's volume, by 2025 (EU taxonomy and EU taxonomy-aligned purpose outside EU).

STAKEHOLDER ENGAGEMENT AND MATERIALITY PROCESS

Stakeholder groups

Ten stakeholder groups were defined in 2018 as part of the materiality process through an analysis by the CSR team and external consultants (CSR Report 2018, p. 9). This selection was also used for discussions in 2021 when the materiality matrix was redefined. The stakeholders comprise all material internal and external stakeholder groups and were determined in consultation with sustainability experts who were entrusted with implementing the stakeholder analysis (Consolidated Annual Report 2021, p. 289 et seq). We are in regular contact with all of these stakeholders via different means of communication. Our stakeholders include various groups of our society. Engaging in dialogue with our stakeholders and receiving their feedback enables us to understand the importance and impact of our actions on our stakeholder groups. For our stakeholders, there are various ways of entering into a dialogue with us: They may visit us at our physical branches or provide feedback via phone or e-mail to our investor relations department, our press office, our call center or during our General Meetings.

2-12
2-29
3-1 **Materiality matrix**



During 2021, the Bank conducted an online stakeholder survey. The goal was to evaluate the importance of various sustainability topics of BAWAG Group from the perspective of representatives of our internal and external stakeholders. Stakeholders of the entire BAWAG Group were invited to participate in the online survey. With respect to BAWAG's employee base, the CEO invited all employees during an internal town hall, and employees were given access to the stakeholder survey via respective internal platforms (e.g. intranet). The results show that all stakeholders rank the topics of "Information security and data protection", "Compliance with legal and ethical standards" and "Economic success" as the most relevant topics. Regarding the three most important topics, no stakeholder-specific preferences or significant deviations could be identified. The results of the 2021 stakeholder survey were subsequently presented and reviewed at an internal workshop with the CFO, the members of the Non-Financial Risk and ESG Committee and other sustainability experts of BAWAG. The 2021 materiality process served as a basis for prioritizing individual sustainability measures and identifying areas of improvement in existing initiatives. As there were no changes to material topics in 2022, we consider the 2021 online stakeholder survey to be representative for evaluating and assessing our material issues for the entire BAWAG Group and for developing future sustainability initiatives. There have been no changes to the list of material topics compared to the previous reporting period.

3-3 MATERIAL TOPICS AND KEY FIELDS OF ACTION

BAWAG Group's seven material topics lay the foundation for its CSR strategy and sustainability reporting: "Economic success", "Ethics and integrity," "Responsibility towards customers," "Sustainability in core business," "Social responsibility and personal commitment," "Employee promotion and development, diversity and equal opportunities" and "Environmental and climate protection". The fields of action and BAWAG Group's sustainability program have been derived from them and are also closely linked to external frameworks such as the GRI, the UN SDGs, the principles and goals of the UN Global Compact and the principles of the UN Global Compact Women's Empowerment Program as well as the concerns according to NaDiVeg. The following table shows main topics and corresponding aspects such as (potential) positive/negative impact, actions, due diligence, risks and engagement with stakeholders: Additional remarks regarding the management approach of each material topic can be found in the relevant chapter. Furthermore, GRI codes, SDG, COP and WEP references have been included alongside the text of the CSR chapter to provide better orientation on the various topics. Each chapter provides further insights into how we manage material topics.

BAWAG Group has robust governance arrangements in place. The Management Board and Supervisory Board ensure a suitable and transparent corporate structure that promotes and demonstrates effective and prudent management on an individual basis and at the Group level. On the Group level, the Management Board and Supervisory Board have the overall responsibility for adequate governance across the Group. The Management Board and Supervisory Board fully know and understand the operational structure of the Group and ensure that it is in line with its approved business strategy and risk profile. The governance framework is transparent as it presents the current position and future prospects of the Group in a clear, balanced, accurate and timely way. The Group provides all relevant stakeholders (including shareholders, employees, customers and the general public) with key information necessary to enable them to judge the effectiveness of the Management Board in governing the Group. The Management Board informs and updates employees about the strategies and policies in a clear and consistent way. Strategies and policies are communicated to all employees throughout the Group via intranet. Employees understand and adhere to policies and procedures pertaining to their duties and responsibilities. All relevant types of documents are included in the hierarchy of documents, where policy commitments are embedded and respective areas of responsibility are clearly defined. Furthermore, the commitments are integrated into organizational strategies, operational policies or operational procedures. Polices are available in German and English. The overarching governance arrangements are thus valid for the management of all enlisted material topics, including commitments, actions taken to manage the respective topics and related impacts.

Unless stated otherwise, target setting in the respective material topics takes into account a sustainability context related to the respective impact (e.g. such as SDGs, where applicable). Furthermore, policies and commitments are informed by expectations of authoritative intergovernmental instruments, such as (not exclusively) the UN Global Compact or the Women's Empowerment Program (see table columns).

3-2
3-3 **Table: Material topics**

Material topic	Impact, effectiveness, due diligence and stakeholder engagement	GRI	SDGs	COP, WEP	NaDiVeG
Economic success	… positive impact: to pursue our simple and transparent business model, which is focused on low risk, high efficiency and regionally oriented towards Austria, Germany and developed markets. … create value for stakeholders across the value chain, leading to a favorable impact on the economy. ... contribute to the success of our stakeholders by consistently driving strategic initiatives. ... to set clear financial targets and be transparent regarding progress. … potential negative impact: economic risks, negative effects on various stakeholders, loss of confidence among relevant stakeholders, declining share price and customer base, depletion of capital reserves. … due diligence: regular auditing, controlling. … effectiveness of actions taken: tracking of key metrics, mitigating changes in macroeconomic backdrop, maintaining a low risk profile, external performance rankings, benchmarkings, external audits, strong internal audit function … engagement with stakeholders: various feedback and interaction formats, with a main focus on investors, analysts, rating agencies, regulators, employees and customers	201-1, 201-2, 201-3 201-4, 202-1, 202-2	1, 8, 9	No assign-ment	No assign-ment
Ethics and integrity	... positive impact: create a positive environment for legally compliant behavior, inside and outside of the company. … to act in accordance with the ethical values of the Code of Conduct, the ten principles of the UN Global Compact and the seven principles of the UN Global Compact Women's Empowerment Program. ... to be guided by the 17 Sustainable Development Goals of the UN as a target framework for sustainable action. … to ensure that taxes follow transactions and thus profits are taxable in the countries where value is created. ... to ensure that all employees act ethically and with integrity through appropriate policies and guidelines. ... to give special priority to the topics of anti-corruption and data protection in compliance management. … to set clear targets and show progress in key areas … potential negative impact: non-compliance with laws and requirements may result in a sustained loss of confidence and reputation. … due diligence: employee training, control systems … effectiveness of actions taken: tracking of key processes, making sure geopolitical changes are accompanied by corresponding measures (e.g. changes in legislation, sanctions etc.), integration of feedback from different regulators, strong internal audit function … engagement with stakeholders: various feedback loops with a broad range of internal (employees) and external (main focus: regulators) stakeholders.	205-1, 205-2, 205-3, 206-1, 415-1, 207-1, 207-2, 207-3, 207-4 418-1, 419-1	8, 16	COP 1, COP 2, COP 10	Respect for human rights, fight against corruption and bribery

Responsibility towards customers	... <u>positive impact:</u> to give our customers the opportunity to conduct their banking transactions according to their individual wishes, whenever and wherever they want, via our digital and physical distribution channels. … to give access to finance, easy to understand, accessible 24/7 via digital devices. ... successful and long-term business relationships with customers across all sales channels and platforms. … to set clear targets and show progress in key areas. … <u>potential negative impact:</u> loss of trust and customers, loss of market share, economic and financial risk. … <u>due diligence:</u> customers' feedback, surveys, market shares, product implementation process, control systems, complaints process. … <u>effectiveness of actions taken:</u> tracking of prioritized initiatives, granting access to finance, collecting feedback from employees and customers, focusing on steady enhancement of product range, strong internal audit function … <u>engagement with stakeholders:</u> various feedback opportunities for customers.	417-1, 417-2, 417-3, FS 13, FS 14	1, 8	COP 1, COP 8	No assign-ment
Sustainability in core business	... <u>positive impact:</u> to promote the development of sustainable business areas and to provide a diverse range of products and services that are geared towards ecological, economic and social requirements. ... to be a reliable partner for companies and the regional economy and to assume ecological and social responsibility. ... to support products and services with a sustainable focus and financing of projects with added value for the regional economy. … to execute on policies designed to create steady and positive developments in key areas relevant to sustainable business. … to set clear targets and show progress in key areas (e.g. regular updates related to green finance framework) … <u>effectiveness of actions taken:</u> tracking of key ESG related numbers in core business (e.g. increase in ESG funds), mitigating ongoing changes in overarching macroeconomic backdrop and sustainable business development (e.g. higher inflation rates and lower level of disposable income) and prioritizing access to housing loans to customers who can afford loans, strong internal audit function … <u>potential negative impact:</u> reputational risk, economic risk, climate change. … <u>due diligence:</u> product implementation process, screening of regulatory changes, internal review processes. … <u>engagement with stakeholders:</u> various feedback loops with a broad range of internal (e.g. sales employees and managers) and external stakeholders	FS 1, FS 2, FS 11, FS 6, FS 7, FS 8, 203-1, 412-1 412-2 412-3	1, 7, 8, 9, 12, 13	COP 1, COP 2, COP 7-9	Environ-mental and social concerns, respect for human rights
Social responsibility and personal commitment	... <u>positive impact:</u> to promote civic engagement and the social commitment of employees … increased awareness of social issues … reduction of inequality and poverty … strengthening civil society	No assign-ment	1, 4	No assign-ment	Social issues

	… (potential) negative impact: reputational risk, loss of trust … due diligence: review process for non-profit crowdfunding.at projects, approval process for employee volunteering, review of donation projects and NGOs. … to set clear targets for key metrics (e.g. corporate volunteering days and participating employees). … effectiveness of actions taken: tracking of key social engagement activities (e.g. such as number of volunteering hours), collecting feedback from employees and NGOs, focusing on steadily increasing support of people in need, measuring of responses and interaction rates, mix of measures (e.g. topic wise: financial literacy, social engagement – format wise: corporate volunteering, fund raising and donation campaigns). … engagement with stakeholders: various feedback and interaction formats (e.g. internal: clicks intranet, attendees of workshops, townhall meetings etc.).				
Employee promotion and development, diversity and equal opportunities	... positive impact: to provide employees with a healthy and career-enhancing work environment. ... to maintain an open, appreciative relationship with employees and to promote their potential. ... to actively put equal opportunities and diversity into practice in the company. … to create opportunities by increasing the level of education. … to actively steer new working environment, promote "flex-office" opportunities and mitigate challenges. … to set clear targets for key metrics, both managing positive impacts and mitigating potential negative impacts. … (potential) negative impact: high attrition, increased sick leave, loss of trust, shortage of skilled workers. … due diligence: evaluation platforms, sustainability ratings, employee feedback on various programs, Women's Advancement Plan … effectiveness of actions taken: tracking of key HR numbers, mitigating changes in workforce development, integration of employees in M&A processes, target evaluation, feedback loops, strong internal audit function. … engagement with stakeholders: various feedback and interaction formats	401-1, 401-2, 401-3, 404-1, 404-2, 404-3, 405-1, 405-2, 406-1, FS 4, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8, 403-9, 403-10	4, 5, 8	COP 3-6, WEP 1-7	Social and labor issues, respect for human rights
Environmental and climate protection	… (potential) positive impact: to preserve the natural basis of human life. … to keep the direct impact on the environment in everyday work and the indirect impact through products and services as low as possible, thus ensuring an environment worth living in for future generations … to mitigate climate change and promote a circular economy … to set clear targets for key metrics, both promoting positive impacts (e.g. increasing green lending) and mitigating potential negative impacts (such as reducing own CO2 emissions).	204-1, 302-1, 302-2, 305-1, 305-2, 305-3, 305-4, 305-5, 305-6, 305-7	1, 7, 8, 13, 16	COP 1-8	Environ-mental

	…(potential) negative impact: climate change risks, financial risks and reputational risks … due diligence: environmental and resource management, Group-wide processes and standards for business relationships. … effectiveness of actions taken: tracking of key numbers, target evaluation, feedback loops, strong internal audit function. … engagement with stakeholders: regular feedback with key stakeholders related to the topic (both internally and externally).				

The following table shows a high-level overview of key actions that are currently being addressed throughout the organization and the current status of each initiative.

Area of action	Measure	Current status[1)]
ESG strategy	**Goal: Strengthening ESG/CSR activities and awareness**	
	… Definition of dedicated ESG strategy	Ongoing
	… Integration of ESG risks in ESG strategy and business model	Done
	… Assessment of green lending, pathway to achieve target and further identification of potential opportunities	Ongoing
	… Assessment and definition of process regarding upcoming regulatory requirements	Ongoing
	… Improvement in sustainability rating agency rankings (focus: MSCI, ISS-ESG, Sustainalytics, Vigeo Eiris, DJ Sustainability Index)	Ongoing
Ethics & Integrity	**Goal: Ensuring compliance with all guidelines and policies**	
	… Implementation and publication of a Group-wide tax strategy	Done
	… Implementation and publication of human rights policy	Done
	… Implementation and publication of political involvement policy	Done
	… Assessment of international labour standards for supply chain	Ongoing
	… Expansion of the training program for employees on the subject of information security	Ongoing
	… Launch of revised, mandatory anti-corruption self-learning program for employees	Ongoing
	… Conducting annual risk analyses and audits and, based on these, defining Group-wide control priorities	Ongoing
	… Integration of the assessment of potential sustainability risks into the annual risk control self-assessment process for divisions and subsidiaries	Ongoing
	… Establishment of a clear governance to address climate risks and to address supervisory expectations and regulations	Ongoing
Responsibility towards customers	**Goal: Appropriate products and services for every life circumstance and every stage of life**	Ongoing
	… Evaluation of processes and implementation of measures to simplify access to finance and increase the use of digital services	Ongoing
Sustainability in our core business	**Goal: Being a reliable financial partner for retail and commercial customers and for the regional economy**	
	… Annual new green lending business of over € 1.6 billion (EU taxonomy + EU taxonomy-aligned purpose outside EU)	2025
	… Expansion of the sustainable/ESG offerings (e.g. BAWAG's residential and consumer lending business)	Ongoing

	… Continuation of the “New Chance” account for the financial inclusion of disadvantaged population groups	Ongoing
	… Expansion of the range of paperless, purely digital product application processes for customers	Ongoing
	… Integrating ESG risk in credit application	Ongoing
Social responsibility and personal committment	**Goal: Further focus on volunteer days, social engagement and measures to improve financial education**	
	… Continuation of commitment to financial education	Ongoing
	… Increasing the number of corporate volunteering hours among BAWAG Group employees	Ongoing
	… Development and publication of a Group-wide Social Engagement Strategy	Ongoing
	… Support for financing of regional social projects on crowdfunding.at	Ongoing
Human Resources: Employee promotion and development, diversity and equal opportunity	**Goal: Appreciation and advancement of employees**	
	… Increase in the proportion of women in management positions in the Senior Leadership Team and Supervisory Board to 33%	2025
	… Simplification of application processes through the use of innovative recruiting technologies	Ongoing
	… Expansion of employee offerings for individualized learning through new online platforms and BAWAG Academy	Ongoing
	… Harmonization of employee benefits for all subsidiaries	Ongoing
	… Expansion of BAWAG’s Women’s Mentoring Program	Ongoing
	… Relaunch of leadership program for new managers	Done
Environmental and climate protection	**Goal: Reducing our environmental impact so as not to endanger the basis of life for future generations**	
	… Reduction of own Scope 1 and Scope 2 CO2 emissions by >50% vs. 2020	2025
	… Maintaining of low exposure to moderate to high ESG risk sectors in Corporates portfolio	Ongoing
	… Implementation of measures to optimize energy consumption during branch conversions in Austria (for example, replacement of lighting with LED lamps and replacement of air conditioning and heating systems)	Ongoing
	… Continuous evaluation of business travel policy	Ongoing
	… Full transition of car fleet to electric cars	2025
	… Digitalization measures to reduce paper use	Ongoing
	… Continuation of the replacement of existing IT equipment with equipment with energy efficiency certification	Ongoing
	… Reduction of Scope 1 and Scope 2 CO2 emissions	Ongoing

1) Explanation of current status:
- 2025: Target to be reached in 2025
- Ongoing = measure has been decided and will be updated on a regular basis OR measure has been decided and will be implemented in 2023
- Done = measure has been finalized and successfully executed in 2022

ECONOMIC SUCCESS

201-1 Creating value for various stakeholders of BAWAG Group is a top priority. Economic success enables us to take into account stakeholder interests, such as those of customers, employees, shareholders, and society in general. It also increases the stability of the economy and the financial sector in particular. Various stakeholders benefit from economic success, e.g. shareholders through capital distributions and a higher enterprise value, while employees benefit from higher job security and are paid in line with or above market conditions. Customers benefit from a comprehensive range of products and services, while government bodies receive taxes and other contributions (levies, social security contributions, etc.).

Furthermore, our financial stability as a bank positively influences our lending capacity, which contributes to the building and renovation of homes and the implementation of sustainable infrastructure projects, as well as to corporate financing. This promotes the distribution of wealth and stimulation of the economy, as well as the growth of products and services to benefit customers and businesses through all economic cycles.

Economic success requires responsible, qualified and transparent management and control geared to long-term value enhancement. The Accounting and Financial Planning & Analysis units perform key tasks in this area. Established processes in Accounting ensure the implementation of changes to Austrian GAAP, IFRS and regulatory guidelines and rules, and the division is thus the point of contact for auditors.

The Financial Planning & Analysis (FP&A) unit runs the processes for reporting requirements in conjunction with the traditional methodological controlling tasks (PCR, FTP, KPI definition, etc.) for the entire BAWAG Group. The controlling units manage the Bank at the individual and Group level through regular reporting. These reports form the core element of the management information system (MIS). The regulatory reporting team prepares and implements existing and new reporting requirements. As in all business areas and key issues, BAWAG Group is committed to openness and transparency here. Extensive information is presented and continuously updated by our Investor Relations department on our website, such as annual and interim reports, investor relations releases, share price data, corporate presentations, ad hoc announcements and press releases to provide transparent information to shareholders and the interested public.

Table: Direct economic value generated and distributed

in € million	2022	2021
Direct economic value generated		
Interest income	1,309.4	1,128.0
Dividend income	16.0	17.7
Fee and commission income	389.0	353.0
Gains and losses on financial assets and liabilities	(13.2)	11.3
Other operating income	87.7	168.1
Share of the profit or loss of associates accounted for using the equity method	2.7	3.8
Write-off of City of Linz receivable	(254.0)	-
ECL management overlay	(39.0)	(23.0)
Total direct economic value generated	1,498.6	1,658.9
Economic value distributed		
Fee and commission expenses	79.7	70.9
Other operating expenses	117.5	241.2
Operating expenses excl. employee excl. community investment	192.1	194.7
Risk costs	83.3	72.0
Employee wages and benefits	286.9	295.4
Staff costs	286.9	295.4
Payments to providers of capital	595.3	691.9
Interest expense	304.3	207.4
AT1 coupon	24.0	24.5
Dividends	267.0	460.0
Payments to government[1)]	182.0	53.0
Income taxes paid	174.0	46.0
Bank levy	8.0	7.0
Community investments	0.2	0.2
Total economic value distributed	1,537.0	1,619.3
Economic value retained	**(38.4)**	**39.6**
Economic value retained w/o City of Linz	**151.6**	**39.6**

1) Country reporting see annual report notes section

In the last two years, the economic value retained was marked by specific events: In 2022, the write-off of the City of Linz receivable impacted the economic value generated by € 254 million. In 2021, we distributed the catch-up dividend to our shareholders, following the dividend restrictions of the European Central Bank during the pandemic.

RATINGS

BAWAG P.S.K., the most relevant operating subsidiary of BAWAG Group AG, is rated by Moody's Investors Service.

BAWAG	2022
Long-term senior unsecured / issuer rating	A2 (stable outlook)
Long-term bank deposits rating	A2 (stable outlook)
Short-term issuer / bank deposits rating	P-1

Our sustainability performance is assessed by ESG rating providers on a regular basis. After a significant improvement of our ratings in 2021, we maintained the levels during 2022. We use their assessment to identify further areas of improvement and disclosure gaps in order to also enhance transparency for investors. We further integrated ESG in our communication and also provide regular updates on our ESG website at bawaggroup.com for our stakeholders. The current ESG ratings are published on our ESG website at bawaggroup.com.

201-2 FINANCIAL IMPLICATIONS AND RISKS DUE TO CLIMATE CHANGE

Climate change has consequences for the planet and environment, as well as for the economy and financial system. It will change customer behaviors, customer selection and consequently impact the profitability of certain asset classes. This may result in stranded assets and challenged business models in the event companies do not transition to a more sustainable business model. We are committed to addressing the immediate need to combat climate change across our business. However, the reality is today's actions will take time to have real impact on our climate. As a Retail-focused bank, we will support our customers as they look to reduce their carbon footprint. We are also committed to keeping our exposure to high-emitting GHG sectors low across our corporates portfolio.

The Paris Agreement which was signed in 2015 and came into force in 2016 has the aim to limit global warming to well below 2 degrees by 2050 – and preferably to 1.5 degrees. In order to achieve this goal, the member countries need to have plans to achieve this goal on a national level. The European Union has defined measures with its member states that cover a broad range of initiatives. These measures became the central element of the European Green Deal, the European Climate Act, and the Fit for 55 package, with a binding target to reduce net greenhouse gas emissions by at least 55% compared to 1990 levels by 2030 and to achieve climate neutrality by 2050. Austria has set more ambitous targets with a goal of climate neutrality targeted by 2040 and renewable electricity by 2030.

When focusing on the reduction of GHG-emissions, we as a bank can contribute directly and indirectly. Our use of resources is limited, but we have continuously established initiatives to reduce our emissions and set targets to reduce our CO2 emissions (Scope 1 and 2) by over 50% by 2025 versus 2020. More important is our indirect impact through our lending and investment activities and the investments we offer to our clients. To limit the negative impact of our lending portfolio, we implemented lending criteria for selective industries with high ESG-risks, consisting of industry exclusions and restrictions, starting in 2021. We review this list on an annual basis in order to consider any new developments and will tighten the criteria where applicable. We currently have zero exposure to prohibited businesses. Our oil and gas related industry exposures are less than 1% of total assets. The detailed list is published in the Corporate Social Responsibility Report as well as the up-to-date lending criteria on our website. We expect to maintain the already low levels of ESG risks in our portfolio of <2% exposure in moderate to high or high emitting industries.

As an SSM institute, BAWAG Group participated in the first stress test on climate and environmental risks where the ECB assessed how prepared banks are for dealing with financial and economic shocks stemming from climate risk scenarios over a 30 year time horizon. We successfully completed the exercise with an above average overall rating (ca. top 35% of banks) considering all the elements assessed and indicating a rather low impact of climate risks related to our business model. Additionally, in the seven highest GHG-emitting sectors as defined by the ECB for the stress test, BAWAG has 8.7% of total non-financial corporate exposure to these sectors. This compares favorably to a median of 29% exposure to these sectors among all participating banks in the ECB climate stress test sample. However, we continue to work on the development and expansion of our Climate & Environment risk management and will implement the learnings gained from this exercise.

While we currently only disclose scope 1 and scope 2 emissions, we decided to measure and disclose financed emissions using the PCAF Global GHG Accounting and Reporting Standard for the Financial Industry. We have started to collect ESG data from customers as well as have defined methodologies in place. Our target is to start disclosing CO2 emissions of our lending and investment book during 2023. The key challenge when reporting on climate-related topics mainly relates to data availability and data quality provided by customers to comprehensively calculate CO2 emissions within our lending book.

201-3 DEFINED BENEFIT PLAN OBLIGATIONS AND OTHER RETIREMENT PLANS

The post-employment benefit rights of the majority of employees are defined contribution plans. The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations. Payments to pension funds for defined contribution plans amounted to € 7 million in 2022. Post-employment benefit plans in BAWAG Group that qualify as defined benefit obligations amount to € 174 million. Pension payments to beneficiaries amounted to € 18 million in 2022.

For further details we refer to the notes to the consolidated annual financial statements (Note 1 and 29).

ETHICS AND INTEGRITY

RISK CULTURE AND COMPLIANCE

2-23 The Group has robust governance arrangements in place. The Management Board and Supervisory Board ensure a
2-24 suitable and transparent corporate structure that promotes and demonstrates effective and prudent management on an individual basis and at the Group level. On the Group level, the Management Board and Supervisory Board have the overall responsibility for adequate governance across the Group. The Management Board and Supervisory Board fully know and understand the operational structure of the Group and ensure that it is in line with its approved business strategy and risk profile.

The governance framework is transparent as it presents the current position and future prospects of the Group in a clear, balanced, accurate and timely way. The Group provides all relevant stakeholders (including shareholders, employees, customers and the general public) with key information necessary to enable them to judge the effectiveness of the Management Board in governing the Group. The Management Board informs and updates employees about the strategies and policies in a clear and consistent way. Strategies and policies are communicated to all employees throughout the Group via intranet. Employees understand and adhere to policies and procedures pertaining to their duties and responsibilities. All relevant types of documents are included in the hierarchy of documents, where policy commitments are embedded and respective areas of responsibilities are clearly defined. Furthermore, the commitments are integrated into organizational strategies, operational policies and operational procedures. Hence, commitments and policies refer to the full range of material topics. Policies are available in German and English.

All employees of the Group, whether full-time or part-time, are to be treated fairly and equally, regardless of age, gender, disabilities, sexual orientation, origins (national and ethnic), religion and -beliefs. The Group rejects all forms of discrimination and sees diversity and equal opportunities as a strength and competitive advantage. The Group takes a strong stance against all forms of mobbing, sexual harassment, intimidation and violence. The Management Board develops and promotes high ethical and professional standards, which are described in the Code of Conduct.

We operate in a highly regulated environment and are directly supervised by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). We are thus subject to and compliant with the regulatory framework which applies to the governance of significant credit institutions. On top of this, we have adopted internal policies which go beyond the regulatory framework and shall ensure that we stay committed to the highest standards with respect to our risk culture and compliance.

We believe that effective compliance and risk management is a crucial aspect of a bank's success. In addition to the conventional risk types, we appreciate that the management of non-financial risks is becoming increasingly important. Group-wide compliance and non-financial risk management sets the framework under which laws, requirements and standards are observed and aims to provide comprehensive protection for investors, customers and the company. In addition to the management of operational risks, the tasks include the prevention of money laundering, combating terrorist financing, monitoring compliance with sanctions, fraud prevention, anti-corruption, data protection, information security, securities compliance and the prevention of insider trading, market abuse and conflicts of interest. The term "compliance" refers to the sum of all measures that obligate a company, its management and employees to adhere to applicable regulatory and legal requirements. Beyond this, the aim is also to ensure that business conduct complies with all social guidelines and values. A modern compliance structure pays attention to suspicious circumstances, takes them seriously, reacts, acts and implements preventive measures through the sound preparation of risk analysis and intensive training of all employees.

All risk units in BAWAG Group report to the Chief Risk Officer. The separation between risk origination and risk management functions is strictly adhered to. The full Management Board is informed proactively and at least monthly about the relevant risk KPIs. In 2021, BAWAG Group consolidated and functionally centralized compliance themes under the lead of a designated Management Board member to foster independence and awareness and support businesses and stakeholders. All compliance units are under joint management responsibility and report to the Chief Administration Officer (CAO). Non-financial risks are discussed in the Non-Financial Risk and ESG Committee and assessed as part of the mandatory product implementation processes. Quarterly risk and compliance reports are submitted to the respective committees of the Supervisory Board. The risk policy guidelines are continuously reviewed with regard to adjustments to the business strategy, changes in regulatory requirements and changing market conditions. Violations of legal requirements and internal rules of conduct can lead to reputational risks and serious consequences such as penalties, fines and negative impacts for BAWAG Group. Individual employees involved in such violations face fines or imprisonment as well as disciplinary measures under labor law, up to and including dismissal. Any attempt to commit a financial crime is considered a serious violation of BAWAG Group's business principles and integrity and is investigated accordingly. BAWAG Group applies a zero tolerance policy with respect to such matters.

Risk control self-assessments (RCSA)

Other non-financial risks associated with effects from business activities or business relationships (as defined in Section 267a [3] UGB) are identified annually in the specialist areas as part of the risk control self-assessments (RCSAs). All divisions and subsidiaries are involved in the process. Operational risk includes various subcategories, such as violation of health and safety regulations, discrimination, violations of guidelines and violations of privacy. All organizational units are asked to identify and assess their respective risk, as well as the effectiveness of controls and measures that are put into place.

In 2022, potential sustainability risks were assessed on a quantitative and qualitative level: All divisions and subsidiaries were required to assess whether potential risks could arise from environmental topics or social changes in their areas of activity and business via a questionnaire. In terms of environmental topics, a distinction was made between physical risks (arising directly from the consequences of climate change) and transition risks (arising from the transition to a low-carbon economy). Physical risks included climate change/weather extremes/natural disasters and resource scarcity. Transition risks were differentiated into supply chain changes/disruptions, potential carbon taxation/levies, the impact on existing business lines and the development of new business lines/industries. With respect to social factors, the pandemic/health crisis, an aging society, the widening gap between rich and poor, a lack of access to banking infrastructure/products, a lack of skilled labor, high turnover and new work models and discrimination in terms of gender, age and/or other factors were taken into consideration.

All operational risks were assessed for their ESG relevance and evaluated on a percentage basis. This new method allows us to raise awareness and emphasize awareness for ESG-related topics among our Group.

The collected risk assessments are reported to the Management Board as part of the RCSA process.

Self-learning programs

Regular and comprehensive training and communication of legal requirements and internal guidelines is key to ensuring that employees are up-to-date with requirements applicable to their area of responsibility. As a part of the onboarding process, all new employees are obligated to successfully complete the key topics through self-learning programs within 30 days of the start of their employment. These initial self-learning programs are linked to conduct and securities compliance, AML (various modules e.g. KYC, ultimate beneficial owner), operational risk, security/data protection, and anti-corruption. Other training courses are conducted throughout the year as part of BAWAG's ongoing training programs.

Code of Conduct

COP 1 BAWAG Group's Code of Conduct sets forth the understanding of banking and conduct ethics that BAWAG Group applies. It is
COP 2 important that employees internalize these rules and values. Therefore, corresponding training on this matter is conducted
COP 6 (bi-)annually. As part of this training, employees are familiarized with aspects of business ethics and anti-corruption rules, all aspects of compliance and the general principles of conduct that apply in day-to-day business. The Code of Conduct also applies to members of the Management Board and the Supervisory Board. Our Code of Conduct is regularly reviewed to determine any need for revision and is published on the BAWAG Group website in German and English.

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Supplier Code of Conduct

While the Code of Conduct (described above) represents the values BAWAG Group stands for, the Supplier Code of Conduct defines our expectations towards business partners. These expectations cover, in particular, ethically correct and legally compliant behavior, environmental protection and human rights. Among other things, counterparties undertake that they:

- comply with applicable laws of the respective jurisdiction;
- refrain from actions that could unlawfully influence the decisions of government representatives and public bodies or authorities;
- prohibit the acceptance of gifts and gratuities from employees in connection with their work and duties in excess of customary gifts or other benefits;
- respect fundamental rights, health and safety of employees; and
- respect environmental protection by complying with applicable laws, regulations and international standards

Each supplier is obligated to commit to these principles before entering into a business relationship with BAWAG Group. The requirement to sign the Supplier Code of Conduct is stipulated in the Group-wide Corporate Procurement Policy and accordingly applies to all entities of BAWAG Group.

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Table: Expenditures to local suppliers[1)]

	2022	2021
Expenditures to local suppliers	72%	74%

1) Suppliers with their main location in Austria, Germany or Switzerland are considered “local”. International companies whose branches are located in the aforementioned countries and act as billers to BAWAG Group are also classified as “local” in the presentation. Due to the data situation, it was only possible to report the expenses of BAWAG (incl. easybank, SÜDWESTBANK, Hello bank!). An expansion of the presentation to include other subsidiaries is planned.

Prevention of money laundering and terrorism financing (AML / CTF)

BAWAG Group’s focus is on low-risk business in its core markets Austria, Germany, Switzerland, the Netherlands (DACH/NL region), Western Europe and the United States. BAWAG Group is committed to combating financial crime and ensuring that accounts held at its organization are not misused for illegal activities like money laundering or terrorism financing. Accordingly, BAWAG Group has implemented Group-wide policies, processes and controls with respect to anti-money laundering (“AML”) and counter terrorism financing (“CTF”) which, combined with other comprehensive measures and procedures, aim at applying a risk-based approach. These policies implemented the applicable legal framework, such as the Austrian Financial Market Money Laundering Act (FM-GwG) and applicable EU regulations. In terms of AML and CTF, the following principles apply:

- BAWAG Group’s AML/CTF strategy is closely aligned with the defined ESG risk appetite of BAWAG Group and aims for customers with a low AML/CTF risk profile. Accordingly, prohibited and restricted countries, customers, industries and products have been defined.
- BAWAG Group’s AML/CTF strategy defines minimum standards in respect of know your customer (“KYC”), customer due diligence (“CDD”) and enhanced due diligence (“EDD”) requirements. The defined KYC processes ask for proof of origin, usage, domicile and residence, and industry risk and define regular risk-based customer updates. The onboarding processes of new customers demand the identification and verification of private customers, corporates, trustees and trustors, and their ultimate beneficial owner before account opening or executing a single transaction outside a permanent business relationship in a risk-based manner and following defined CDD or EDD requirements.
- AML/CTF prevention is technically supported by various applications which ensure risk classification as well as customer transaction screening. During the onboarding process, customer screening (PEP and embargo) is

performed before the client is onboarded as well as on a regular basis to identify PEPs (weekly), sanctioned persons and terrorists (daily). This is supported by an automated monitoring system which screens customers against internationally recognized lists. Transactions are monitored in real-time (sanctions and CTF) and ex post via specific AML/CTF scenarios and defined thresholds depending on the risk class of customers.
- Additionally, BAWAG Group has defined, implemented and documented internal control systems ("ICS") in line with applicable laws. The ICS are intended to ensure efficient and high-quality processes. Findings are reported on a regular basis, with out-of-the-ordinary findings being reported immediately. The ICS comprises, among others, KYC onboarding processes, transaction screenings and various business field reviews. They are continuously updated, especially in the case of the implementation of new products, sales channels, lines of business or business sectors.
- BAWAG Group reports to and supports international and national authorities in combating illicit activities (including terrorism financing, tax fraud and other illegal activities).
- BAWAG Group's AML/CTF policies have clear guidance for its employees and define mandatory, designated AML/CTF training sessions (AML/CTF module, KYC module, ultimate beneficial ownership module, cash module) for all employees which are conducted via computer-based self-learning programs and via face-to-face training by Compliance Officers or external companies.
- Adherence to the guidelines is reviewed by the AML Office in so-called compliance reviews, which are conducted in line with a risk-analysis-based annual plan approved by the Audit and Compliance Committee of the Supervisory Board. These reviews also include subsidiaries of BAWAG Group.

Further details on BAWAG Group's approach towards AML and CTF can be found in the Anti-Money Laundering Policy, which is published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

Securities compliance

Compliant conduct regarding internal and external provisions pertaining to all securities-related business, such as advisory business for customers, personal trading obligations of employees and directors, and rules to prevent market abuse and conflicts of interest is of primary concern to BAWAG. BAWAG Group aims to identify possible risks at an early stage and to communicate appropriate measures in a transparent way.

BAWAG Group has implemented Group-wide policies, processes and controls with respect to securities compliance which, combined with other comprehensive measures and procedures, aim at applying a risk-based approach. Therefore, BAWAG Group's securities compliance strategy is based on a regular risk assessment considering securities related data and processes throughout the Group.

The policies implemented stem from the applicable legal framework, such as the Austrian Securities Act (WAG 2018), the Stock Exchange Act (BörseG 2018) and applicable EU regulations such as MiFID II and the Market Abuse Regulation (MAR).

- Group-wide guidelines govern employees' personal securities transactions as well as the handling of compliance-relevant information, the avoidance of conflicts of interest and market abuse including a daily technically supported screening of clients' securities transactions. Additionally, BAWAG Group has defined, implemented and documented internal control systems in line with applicable laws.
- Employee training on securities compliance is conducted (bi-)annually, based on an assessment of the individual risk associated with relevant employees (e.g., annual training for securities advisors).
- BAWAG Group's Securities Compliance Policies have clear guidance for its employees and define mandatory, designated and tailored securities compliance training sessions for all employees, which are conducted via computer-based self-learning programs and via face-to-face training by Compliance Officers (e.g. at BAWAG Academy). The mandatory "Securities Compliance" self-learning program covers aspects of the Group Compliance Policy and the Group Conflicts of Interest Policy.

- Adherence to the guidelines is reviewed by the Compliance Office in so-called compliance reviews, which are conducted in line with a risk-analysis-based annual plan as approved by the Audit and Compliance Committee of the Supervisory Board. This also includes reviews at selected subsidiaries of BAWAG Group.
- Daily securities transaction screening is technically supported by various applications within the Group that ensure high standards in order to prevent market abuse.
- Employees of the Securities Compliance Office receive ongoing internal and external training throughout the year that is particularly focused on but not limited to regulatory developments in the fields of securities compliance, ethics and conduct to continuously improve and maintain high standards of expertise in these fields.

Anti-corruption and ethics

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BAWAG Group does not tolerate any financial crime and applies a zero-tolerance policy in this respect. Any abuse of power, position or resources to gain a personal advantage or an advantage for third parties and to influence the behavior of the recipient in a certain way is prohibited. We therefore expressly prohibit any form of bribery or corruption. Any attempt to bribe or gain other unlawful advantages must be rejected and reported immediately to the Compliance Office, and the relevant department must be informed. We take decisive action against attempts at corruption in all our business areas.

The Anti-Corruption Policy defines the terms benefits/gratuities, corruption and public officials and regulates the handling of gifts as well as sponsorships and charitable donations. The Anti-Corruption Policy provides for a broad definition of benefits to cover all types of gratuities. The policy is available in German and English to all employees in addition to a compact guide that summarizes employees' key anti-corruption obligations in an easy-to-understand manner.

The policy provides for levels of specific benefits that can be accepted up to certain thresholds and are subject to documentation/approval and reporting requirements, while at the same time defining benefits that are prohibited under all circumstances (e.g. benefits that violate applicable law, ethical principles and/or are discriminatory in nature or benefits to and from public officials). All business areas of BAWAG Group are monitored within a very narrow framework as part of a risk assessment. The monitoring processes take place on a regular, individual basis and are structured according to the size of a business unit, its tasks, its relationship with external parties, its self-assessment of operational risks and, if applicable, previous incidents. Depending on the individual classification, certain preventive measures are implemented. These measures include a higher frequency of training and compliance audits for high-risk units.

All employees (including part-time) and members of the governance body of BAWAG Group receive tailored training on ethics and anti-corruption. For training purposes, a mandatory e-self-learning program has been established that covers all topics related to the Code of Conduct and the Anti-Corruption Policy. New employees must complete this self-learning program at the beginning of their employment. The program is constantly updated in line with evolving legal requirements and current incidents and is rolled out to all employees on a regular basis, at least every two years (most recently in fall 2021). Each training session ends with a mandatory test in which a minimum score must be achieved in order to complete the training. In addition to these regular training initiatives, ad hoc training measures are also conducted following specific incidents and the results of the regular anti-corruption risk assessment. These ad hoc training measures can take the form of specific training for individual employees, training for specific departments or information for the entire organization via an article on the company's intranet.

Departments that are particularly at risk are regularly informed of obligations during compliance audits. In addition, compliance SPOCs (single point of contacts) across the organization help to raise awareness of the need to handle benefits in accordance with the rules. Based on the training that every employee receives, BAWAG Group expects its employees to act responsibly with regard to anti-corruption and bribery. For this purpose, a self-assessment is carried out by the respective employee in the first control level. In addition to the self-assessment, a control and, if necessary, approval process takes place for the receipt and granting of benefits, which essentially depends on the type and value of the benefit. All benefits are recorded in a gift register to enable retrospective review.

The Compliance Office reviews the gift register annually and evaluates individual cases as part of the grant approval process. Regular audits are conducted in the individual areas at least once a year. These audits address anti-corruption and ethics issues. In the course of BAWAG Group's approach, all provision set in the anti-corruption policy apply to every division within BAWAG Group, including subsidiaries and branches in Germany, Switzerland, the United Kingdom and the United States of America.

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BAWAG Group also observes anti-corruption regulations that are anchored in the Supplier Code of Conduct in our business relationships with suppliers. Adherence to the anti-corruption guideline is checked, for example, during "compliance reviews", which always include the topic of anti-corruption. Further details on BAWAG Group's approach towards ethics and anti-corruption can be found in the Anti-Corruption Policy and Business Ethics Guidelines, which are published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

All members of the Supervisory Board of BAWAG Group were informed about compliance topics as part of the annual report during the reporting year. No cases of corruption were reported in BAWAG Group in 2022.

CYBERSECURITY

SDG 16 Information and IT security

BAWAG Group's Chief Information Security Office and the IT Security Operations Team are committed to protecting the information, ICT systems and interests of employees, customers and other stakeholders in terms of confidentiality, integrity and availability. BAWAG Group has implemented a set of security policies covering both general and specific security topics such as identification and access management.

The security policy document set is regularly adapted to current challenges (e.g. regarding increasing cloud usage or social media usage) and comprehensively expanded. State-of-the-art technologies and services are used to achieve the expected high level of internal and external security. In addition, organizational measures are implemented such as regular security awareness training for employees, security training on demand, security information blogs and security alerts for employees and customers (on our public BAWAG security portal).

The security measures defined in collaboration between the CISO Office and IT experts are executed by certified security experts – both in the CISO Office and in the IT Security Operations/SOC Team. A special security focus has been placed on the development, implementation, operation, use and maintenance of new ICT solutions in order to identify emerging security risks at an early stage and achieve compliance with new regulatory requirements.

In addition to dedicated organizational security units, BAWAG Group has established interdisciplinary committees and working groups to ensure comprehensive and consistent implementation of organizational and technical security measures, such as the IT Security Roadmap Workshop, the Cyber Crime Working Group and the Fraud and Information Security Committee (CFIS).

BAWAG Group regularly performs penetration tests (sophisticated security tests) with the help of specialized expert companies, especially for Internet-connected systems (such as our digital banking solutions). The regular performance of penetration tests is required in BAWAG Group not only by financial market regulations, but also by the internal Penetration Testing Standard policy. The results of the penetration tests are used to further improve the security of the tested systems. For all internal systems, BAWAG not only performs specific penetration tests, but also ongoing vulnerability scans to identify inadequacies in the internal IT landscape. Detected vulnerabilities are dealt with in a timely manner according to their criticality. To validate our comprehensive cybersecurity approach, we use a renowned cybersecurity rating service, which demonstrates the comparatively good cybersecurity position of BAWAG Group (including our international units) in the financial sector.

DATA PROTECTION

Since we manage sensitive data about the financial lives of our customers, a seamless data protection concept is of particular importance to us. BAWAG Group is therefore committed to implementing high data protection standards in accordance with the legal provisions of the General Data Protection Regulation and the data protection laws in the countries where it operates, as well as taking human rights into account. The Group Data Protection Officer advises relevant stakeholders within BAWAG Group. The Data Protection department is integrated into the General Counsel Office and reports to the Chief Administrative Officer. In addition, data protection and information security topics are dealt with in the Non-Financial Risk and ESG Committee. Projects focusing on data privacy were also implemented in the reporting year, including the review of the IT system catalog regarding data privacy compliance (e.g. data deletion routines). In addition, the procedure directory was updated.

Further details on data protection can be found in BAWAG's Data Protection Guidelines, which are published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

Responsible handling of data
BAWAG Group is obligated to comply with the rights of its customers and employees to information and access to their data as well as to rectification, deletion, restriction of processing, data portability and the right to object. Customers are informed about the collection, use, disclosure and storage of data (including data transfer to third parties). Third parties to whom data is to be transferred must comply with company policies and enter into agreements on commissioned processing and confidentiality. An online inquiry form for customers and detailed information relating to data processing are available on the websites of the Group companies. In addition, customers are informed of the possibility of contacting the data protection team directly via online contact forms on the respective websites or via e-mail.

Procedure in the event of suspected data privacy violations
Data protection violations are reported to the data protection authority in accordance with the General Data Protection Regulation. Any potential breach reported by customers or employees is thoroughly investigated and followed up on. Once the results of the analysis are available, measures are taken to prevent a new incident if an actual breach is identified. Measures include changing process flows, introducing another audit measure, making any necessary technical adjustments and retraining employees. Customers are provided with a data protection information document pursuant to Articles 13 and 14 of the GDPR when products are opened, which contains, among other things, the contact options for the data protection authority for suspected cases of data protection violations. The notification is free of charge for customers. After the notification of a customer, the data protection authority examines the suspicion in the company. BAWAG Group is obligated to submit a statement on the individual case to the data protection authority within 14 days.

Employee training
A comprehensive data protection guideline applies to all employees. A mandatory SLP has been introduced for training purposes and is updated on a regular basis. The SLP must be completed by all employees every two years. In addition, contact persons in the Group help raise awareness for the confidential treatment of the personal data of our customers and employees.

Whistleblowing

Open dialog between managers and employees is very important to us. Employees can report information about suspicious circumstances to their managers at any time. If they wish, employees can also submit such reports anonymously and confidentially via a whistleblowing system, because well-founded tips help us improve as a company and as a team. The web-based whistleblowing system is operated by an external, independent provider and is certified in accordance with European data protection law. The whistleblowing system can be accessed by employees 24/7 and is available in German and English. The employee can choose whether the report is made anonymously or not. If the whistleblower wishes to remain anonymous, a protected multi-stage login procedure with a self-selected pseudonym and password is used to ensure the whistleblower's anonymity. With the help of individual encryption, message data, mailbox data and processing data are protected from access by third parties. Only the administrators and selected, specially trained employees of BAWAG Group who are authorized as "legitimate recipients" can process the data. The security system denies unauthorized third parties any access. All employees with access rights to the reporting system are bound by a mandatory duty of confidentiality by accepting the authorization. This special duty of confidentiality continues to apply indefinitely after the authorization has been deleted. The whistleblowing process is part of the “Compliance and Conduct” self-learning program for employees.

Detailed information on the process can be found in the Group-wide whistleblowing policy, which is available to employees in German and English on the intranet. It sets out rules for the careful handling of reported cases and provides guidelines on how to protect the reporting person from disadvantages and negative consequences. All whistleblower reports are handled in accordance with the specified matrix, documented in detail and reported to the management board in specific cases.

TAXES

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Tax concept

In 2022, a Group tax strategy was introduced and approved by the Management Board. A summary of the main points of this tax strategy is published on the BAWAG Group website. The tax strategy is reviewed at least annually and updated as appropriate. The responsibility for compliance with the tax strategy lies within the accounting division, which includes the tax department. Relevant tax issues are reported to the CFO on a quarterly basis. BAWAG Group recognizes the principle that taxes follow transactions and thus profits are taxable in the countries where the value creation takes place. Compliance with applicable tax obligations in the countries in which we operate plays an important role for us. This applies equally to our own agendas as well as to our employees, customers, and business partners. BAWAG Group is committed to complying with applicable tax laws, guidelines, and reporting obligations according to its business activities. Both own employees as well as consulting companies of the respective country are involved, as appropriate. BAWAG Group does not use non-transparent jurisdictions or tax havens for tax avoidance. Transactions within the Group are structured in accordance with the applicable transfer pricing regulations in accordance with the arm's length principle. We consider the economic and social impact of relevant tax decisions on business and sustainable development in the countries in which we operate.

Tax governance, control and risk management

Our tax compliance culture reflects the attitude and behavior of our company's governing bodies and management regarding tax compliance. It is important to us that there is a perception at every level of the company that compliance with tax regulations is necessary and important and that every employee must contribute to this. In our company, every action must comply with the legally binding regulations at the national and international level as well as all voluntarily entered obligations. Internal training courses for employees are held on tax topics relevant to BAWAG Group. The employees of the tax department take part in various internal and external tax-relevant training courses. When introducing new products, a tax classification is always carried out in advance. Emphasis is placed on compliance with tax reporting obligations that serve to ensure tax transparency (such as GMSG or DAC-6). Disclosures on tax are audited as part of the audit of BAWAG's annual financial statement.

As in previous years, tax risk management is part of BAWAG Group's Group-wide ICS and risk management. BAWAG Group plans to gradually implement an additional tax risk management system in the future. The remuneration of employees is completely independent of factors such as achieving tax savings or lowering the tax rate.

Stakeholder engagement and management of concerns regarding taxes

Balancing the interests of all stakeholders is part of the decision-making process on any relevant tax issue. In addition to the possibility to use the whistleblowing hotline, employees also can address questions and concerns regarding the tax implications of the (planned) business activity or positioning of BAWAG Group directly to the tax department and ask for an opinion. External stakeholders, such as suppliers and business partners, have the possibility to express concerns about business conduct and tax implications via the email address csr@bawaggroup.com. This contact option is referred to on the website www.bawaggroup.com. Supervisory Board members may raise issues at quarterly Supervisory Board meetings, and shareholders can exercise their right to information at the Annual General Meeting within the scope provided for by law.

BAWAG Group strives to maintain an open and constructive dialogue with all tax authorities, based on transparency and mutual trust. The aim is to create legal certainty and financial planning certainty. Our stance on political influence is governed by the Political Involvement Policy, which is available on the website www.bawaggroup.com.

BAWAG Group does not provide tax advice to clients and, to the best of our knowledge and belief, we do not offer any (own) tax-optimized models or financial instruments.

RESPONSIBILITY TOWARDS CUSTOMERS

BAWAG Group continuously strives to meet the needs of its customers and to provide as many people as possible with access to banking services and products that fit their individual circumstances and support their financial objectives. The needs of our customers are given top priority. Their behavior and needs are constantly evolving, due in part to the increasing digitalization of everyday life and the changing economic and financial conditions impacting their circumstances. Accordingly, customers' expectations of a bank's products and services are also changing rapidly, and BAWAG Group aims to meet these expectations with innovative strength across all sales channels.

RESPONSIBLE INTERACTION WITH CUSTOMERS

We strive to achieve the highest customer satisfaction on all sales channels. A respectful dialog and proactive communication with our customers are particularly important to us, which is why we offer our customers the opportunity to submit inquiries and feedback via various channels. In addition to the employees who work directly with customers at the branches, the customer service center, complaints department and social media are key feedback platforms.

Access to finance

As defined in our business strategy, we want to provide our customers 24/7 banking access through a multi-channel and multi-brand commercial banking platform. Over the last couple of years, we diversified our Retail & SME originations away from branches, thereby increasing the accessibility of our products and services. While our branch footprint was reduced as a response to changing customer behavior, we entered into partnerships, worked with brokers, and continuously enhanced our online/digital access. One key element is the digitization of products: Today, 75% of Retail & SME products are digitized with fully automated on-boarding and we target a 100% fully automated onboarding offering by 2025. Today, over 75% of originations come by way of non-branch channels as we have invested in digital channels, partnerships and platforms. More than 90% of our transactional banking is done digitally, whether it is via our mobile or web banking functions or self-service devices. And today we have over 900,000 online customers. In addition to the transactional banking, more than 45% of our retail customer loan sales are originated through non-traditional channels.

For all questions about products, services, etc., we have implemented a dedicated section on the website (https://www.bawag.at/bawag/faq) where customers can acquire knowledge in "self-service." In Austria, 95% of households have access to the Internet: Providing the information online increased the number of customers who are able to access the content 24/7 at home. As the Austrian banking market is underpenetrated with securities and investment funds, we held a first webinar for customers to provide easy access to securities investment knowledge and to increase financial literacy. In addition, customers can get access to virtual training materials and receive a "stock market driving license" – free of charge.

Our infrastructure in the region ensures access to banking services

Within the Austrian market, BAWAG provides its customers with access to banking services via various access points. In addition to its branch network, there are 1,215 ATMs outside the branches. Also, BAWAG customers can withdraw cash from any of the about 9,000 ATMs in Austria within the broader network. For the majority of our customers, the usage of ATMs inside and outside of the BAWAG Group network is free of charge. Telephone customer services and 24/7 online offerings complete our service portfolio. By maintaining this infrastructure, we also enable residents in sparsely populated regions to access banking services. In the following provinces, the number of inhabitants per square kilometer is below the Austrian average (106.1*):

FS 13 **Table: Access to banking services in sparsely populated provinces in Austria**

2022	Inhabitants per square kilometer*	Branches	ATMs (outside of branches)
Lower Austria	89.5	8	219
Salzburg	79.4	4	67
Styria	77.1	12	212
Burgenland	76.0	3	54
Tyrol	60.8	4	99
Carinthia	59.7	4	94

Source: Statisik Austria

BAWAG branch network

As a bank, BAWAG helps to provide access to banking services in Austria's rural regions. As of 31 December 2022, our physical branch network in Austria consisted of 61 branches and 9 additional self-service branches that are accessible 24/7. The branch network enables 84% of BAWAG P.S.K. customers to reach a branch within a driving distance of 25 km or less, and 88% of customers up to a maximum of 30 km. Under the Südwestbank brand in Germany, we have 11 branches.

Barrier-free access to branches and app

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As of 31 December 2022, BAWAG had equipped 70 locations with self-service zones in Austria. All of these self-service zones are barrier-free for the hearing and visually impaired. The functions required for this were implemented in accordance with the criteria of the Austrian Association for the Blind and Visually Impaired. The visually impaired can operate the devices according to their needs, including increasing the screen contrast, selecting larger fonts and switching off images and animations. Account balance inquiries, withdrawals and PIN management can be completed with the help of the audio function. Barrier-free access to BAWAG locations with self-service zones is possible during opening hours at 100% of the branches, and at 96% of the locations outside opening hours. Barrier-free access to safes is possible during opening hours at 72% of branches that have a safe. In 39% of the self-service zones, it is also possible for wheelchair users to position the front of their chair under the ATMs, which makes it much easier for this customer group to operate the machine. All Südwestbank locations offer wheelchair-accessible facilities. In addition, the BAWAG klar app and easybank app are taken into consideration for providing access to our services online 24/7.

Cash service

BAWAG customers who find it difficult to get to the nearest branch or ATM can have cash delivered personally to their home on a day of their choosing. Any customer residing in Austria can order a "domestic cash order" for their account.

Retail customers

In 2022, BAWAG's klar and easybank digital banking apps were again continuously expanded and improved. This year, customers were offered several updates with improvements and added functions. Above all, the self-service functions (changes to personal data in the apps) and the card management features (request a new credit card and display the credit card PIN code, SmartCash and 3D Secure) were high on customers' wish lists and were fulfilled. This also applies to features such as custom account names, sales receipts and copying and sharing IBANs/BICs. More than 12.6 million transfers were executed via the klar and easybank apps in 2022.

Partnerships and platforms

BAWAG fosters partnerships with retailers in Austria (e.g. supermarkets like REWE brands throughout Austria when paying by card) where people can withdraw cash as well, further easing access to finance. In addition, BAWAG offers its products through various platforms or via brokers, e.g. for mortgage loans.

Business customers

BAWAG further expanded its digital business customer experience in 2022 and offers domestic one-person enterprises the

1) "Austrian resident population" is defined as the number of persons with their main place of residence in the country. Data as of 2016. Source: Statistics Austria.

opportunity to open a business account in a purely digital manner, without having to visit a branch. Once the new online application process for the KontoBox XLarge Business product has been successfully completed, it will be possible to access the new BAWAG business account on the same day.

Outbound services

Furthermore, BAWAG outbound call center agents support customers at different touchpoints in the customer journey: During onboarding processes, customer service employees support customers who, for technical or other reasons, have not been able to get through our online application sections. Furthermore, customers are supported during various application processes (e.g. obtaining documents, explaining contract passages etc.). Regarding digital advisory and multi-touchpoint services, the outbound teams provide online consulting services to customers as an alternative to going to the branch office.

2-26 Complaint management

We analyze our customers' feedback on a regular basis and initiate measures to improve products and processes where necessary. BAWAG's complaint management guideline defines how customer complaints are handled and how this is set up in an organizational and legally compliant manner. Our goal is to deal with complaints responsibly and in accordance with the regulations, to restore customer satisfaction and to improve our service quality through in-depth analysis of the issues presented. We strive to handle every customer complaint as quickly and efficiently as possible and to find satisfactory solutions. Complaints can be submitted through various channels (by phone, web forms, in person at the branches or by regular mail). Regardless of the method of submission, all complaints are registered and customers receive written confirmation of receipt with an individual complaint number if the matter is not resolved immediately. Complaint management handles the examination/coordination of the matter and, if necessary, contacts specialist departments to obtain additional documents. The customer is contacted by complaint management or other qualified departments in order to find a mutually agreeable resolution. If no agreement can be reached with the customer, the customer is informed in writing of the result of the review. Customers also have the option of contacting arbitration bodies, which are official alternative dispute resolution (ADR) institutions under the Alternative Dispute Resolution Act (AStG). According to this law, businesses and consumers can avail themselves of an alternative dispute resolution procedure to court proceedings. Such a procedure can only be initiated by the consumer. Each of these independent bodies must ensure through its rules of procedure that disputes are resolved in a fair and practicable manner based on an objective assessment of the circumstances of the consumer's complaint and with due regard for the rights of the parties. The law also stipulates that proceedings must be conducted swiftly. The Joint Conciliation Board of the Austrian Banking Industry (bankenschlichtung.at) has been established for the out-of-court settlement of disputes relating to certain customer complaints in the banking industry.

For contracts concluded online, the consumer also has the option of contacting the dispute resolution platform set up by the European Commission (ec.europa.eu/odr). The Internet Ombudsman (ombudsmann.at) is responsible for the out-of-court settlement of disputes relating to contracts concluded over the Internet or other issues of e-commerce, Internet law, data protection, copyright and trademark law in connection with the Internet. Consumer Mediation Austria (www.verbraucherschlichtung.at) is the competent body for complaints relating to foreign currency loans. Consumers are already expressly informed of the possibility of appealing to these arbitration bodies in the contract documents. The Complaint Management department continuously analyzes the data and information received and, on the basis of this, formulates suggestions for improvements to products and internal processes. The evaluation results are submitted to the Non-Financial Risk and ESG Committee and discussed in the meeting.

Responsible customer management

417-1 Responsible and respectful dealings with our customers are important to us and are laid down in various guidelines (including the Code of Conduct). We comply with the pertinent legal regulations and also set strict internal guidelines for ourselves. In this way, we want to ensure that at every point in the company, the needs of our customers are put at the forefront. In 2020, we introduced the Group-wide responsible marketing and sales policy and communicated it to the employees who are directly responsible for its implementation. The policy serves as a strategic code of conduct for responsible behavior in marketing and sales and to build trust with our customers. The guideline's fundamental principles include a commitment to legally compliant, respectful and ethical behavior, confidential handling of information, no discrimination, expanding analytical capabilities, removing barriers and profitable and responsible growth. The guidelines in marketing include a commitment to transparent and clear language in communication measures, fair pricing, diversity in advertising and a respectful approach to all customer groups. In sales, we are committed to appropriate recommendations for our customers, ongoing training for our sales staff, continuous quality controls and a focus on our core competencies.

The policy can be viewed at the following link: www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG

Other cornerstones of responsible customer management

- Only those BAWAG customers are proactively addressed through marketing campaigns for whom we assume that their financial situation allows them to use the advertised financial services product.
- The use of overdraft facilities by BAWAG customers is subject to ongoing monitoring. If we notice that a customer is approaching the upper purchase limit and also remains there for a longer period of time, we contact the customer and, if necessary, offer an alternative to the overdraft. In this way, customers not only save debit interest, but also get the opportunity for clear, structured debt reduction. This service goes beyond the legal requirements, as eligible customers are proactively addressed and the criteria BAWAG uses to define the relevant customer group are more comprehensive than required by law.
- To counter long-term credit risk for customers, we offer special insurance packages in the event of illness and unemployment when a loan is taken out. This service is not required by law, but is provided by BAWAG for the benefit of its customers.
- BAWAG customers are invited to an annual financial check-up at the branches, where they work with personal advisors to define their short- and long-term financial goals. An individual financial plan is drawn up on this basis.
- Depending on the account model, BAWAG proactively notifies its current account customers of new fee statements via ePostbox message on a monthly or quarterly basis. In this way, the Bank strives to ensure that customers are always informed of the current terms. The law only requires this information to be provided once per year.
- As a reliable financial partner, BAWAG aims to provide its customers with transparent information about all advantages and disadvantages. Customer information in advertising materials that used to be shown in small-print footnotes is now printed under the heading "Fair to know" and in the same size as the rest of the text, especially in advertising materials for credit and investment products. This is intended to create more transparency for important customer information.

SUSTAINABILITY IN OUR CORE BUSINESS

By embedding responsible and profitable growth in consideration of ESG factors into our Group strategy, we ensure that the further development of our business activities is in line with environmental and social concerns. The work of the Regulatory Office ensures that EU-wide and national regulations and amendments are continuously monitored and forwarded to the relevant units for the adaptation of processes and guidelines. This also applies to statutory regulations relating to sustainable finance.

RISK-AVERSE ESG STRATEGY

We believe that ESG responsibilities underpin sustainable long-term profitability and are a critical part of managing our risk. We have historically considered environmental and social impact factors in our credit decisions, as they will impact our potential borrowers' repayment of loans over time. This supports our continued focus on ESG risk in order to strengthen our current business model.

FS 6 **Table: BAWAG Group sector exposure (% of total exposure) 1)**

as of 31 December in %	2022	2021
Defense industry	**0.0%**	**0%**
Production and distribution of NBC weapons	0.0%	0%
Production and distribution of conventional weapons	0.0%	0%
Production and distribution of other military services	0.0%	0%
Nuclear energy	**0.0%**	**0%**
Production of electricity in nuclear power plants	0.0%	0%
Construction of nuclear technologies for nuclear power plants	0.0%	0%
Uranium mining and trading	0.0%	0%
Other ethical risks	**0.3%**	**<0.1%**
Production of and trade in addictive substances (tobacco, alcohol >20% by volume)	0.0%	0%
Production, trade and application of green gene technology	0.0%	0%
Gambling and related services/facilities	0.3%	0.02%
Fossil fuels	**0.0%**	**<0.1%**
Total fossil energy sector	0.0%	0.01%
Coal mining and power generation	0.0%	0%
Extraction of crude oil and natural gas by means of fracking or tar sands	0.0%	0%
Climate change	**0.2%**	**0.1%**
Renewable energy	0.2%	0.1%
Sustainable mobility	0.0%	0%
Sustainable construction	0.0%	0%
Other ethical opportunities	**1.4%**	**1.5%**
Socially oriented companies/projects	0.1%	0.0%
Social housing	1.3%	1.5%
Organic farming	0.0%	0%

1) Excluding car leasing and credit cards

PRODUCTS AND SERVICES

BAWAG Group's corporate strategy provides for an increased focus on ESG issues in the coming years. By broadly considering the value chain from an ESG perspective, BAWAG Group aims to expand its understanding of risk and seize business opportunities for the benefit of its shareholders, customers and other stakeholders. In addition to the ESG risk management approach, BAWAG Group also sees specific ESG-related trends as business opportunities. We aim to take advantage of specific growth opportunities associated with environmental and social developments. Examples include the transition to a resource-efficient economy and the need for greater environmental protection and social inclusion.

Taxonomy Ratio

Table: Taxonomy ratios

Taxonomy ratios	%of Revenue	% of CapEx
A1: Exposure to taxonomy-eligible activities / Total assets	24.09%	24.16%
A2: Exposure to non-taxable economic activities / Total assets	3.12%	3.06%
B: Exposure to central governments, central banks, supranational issuers and derivatives / Total assets	22.37%	
C: Share of risk exposures to corporates not subject to NFRD / Total assets	14.82%	
Interbank loans (on-demand)	1.23%	

Table: Taxonomy ratios and contextual information

Taxonomy Ratio	Contextual information
A1	In general, the data used for the calculation of A1 is based on NFRD-eligible companies and taxonomy eligible activities as well as financing purposes that are eligible according to the Taxonomy Regulation.
Private mortgage loans	Mortgage loans were identified by product classification and real estate collateral amount. Private individuals were selected based on the relevant NACE code for private households in EU countries.
NFRD companies	NFRD obliged corporate customers were screened individually with focus on the respective CSR reports or other non-financial reporting. The proportions of their respective eligible activities according to Revenue and CapEx were collected for each relevant customer. For the NFRD obliged banks and insurances the disclosures of the financed eligible activities according to Revenue and CapEx of the underlying are not available yet. Therefore the disclosed KPIs of 2021 were used for both calculation methods of these asset classes.
Special financing of commercial real estate	Specialized lending real estate projects were identified. Since none of the relevant customers are subject to the NFRD, the amount is 0.
A2	Ratio A2 includes the NFRD-eligible companies within the EU that are not considered in ratio A1.
B	Risk positions to central banks, central states and supranational issuers were identified according to their asset class segment as well as derivatives (incl. hedge accounting).
C	Ratio C includes companies that are not subject to the NFRD and not considered in ratio B. The following legal forms were selected: limited liability company (*GmbH*), stock corporation (*AG*), limited partnership with a limited liability company as general partner (*GmbH & Co. KG*), limited partnership with a stock corporation as general partner (*AG & Co. KG*)
Interbank loans	This ratio considers on-demand interbank loans based on the relevant balance sheet positions.

As a financial services provider, BAWAG is fully committed to supporting the economies of the markets we operate to enable governments, enterprises and customers to take key steps towards creating a climate-neutral, climate-resilient, more resource-efficient and circular economy.

As a bank, we have the opportunity to contribute to all environmental objectives which are outlined in the EU Taxonomy Regulation:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

As a bank, we contribute to those environmental objectives – through our core business activities which allocate towards sustainable investments through two primary objectives:

- increase the positive impact by “enabling activities” to support environmental objectives
- decrease the negative impact by reducing or cutting activities that do significant harm to environmental objectives

By increasing funding for environmental and climate-related expenditures, we can support the collective progress towards sustainable development goals and emissions reductions.

To ensure that capital is channeled towards economic activities that make the greatest positive impact on the environmental objectives, we have committed ourselves to organizational ESG targets. One example is our ESG target in green financing. Green finance broadens access to environmentally friendly goods and services for individuals and businesses, and supports the transition to a low-carbon economy. Opportunities for green finance can serve as productive capital with reasonable risk and return dynamics. We expect green financing to reach at least € 1.6 billion (based on EU taxonomy or EU taxonomy-aligned purpose outside of the EU)of our new business annually by 2025, compared to € 0.8 billion in 2020.

We ensure financial products and strategies that pursue environmentally sustainable objectives are available to our customers. Within our advisory and investment offering, BAWAG offers several mutual funds and exchange traded funds (ETFs) that feature environmental objectives, and are provided for our customers based on risk appropriateness and suitability with our cooperation partner Amundi Austria.

Furthermore, the assessment of sustainability goals is a vital part of our internal processes: The product implementation process (PIP) plays a central role in the development of new products and services, entering new markets, and making important changes to existing products, services and markets. All risks, such as credit risk, market risk and operational risk, must be taken into account during product development. Since the beginning of 2020, the inclusion of ESG criteria in the product implementation process has been mandatory.

In 2022, all newly launched products were also reviewed in view of CSR/ESG aspects. Prior to launching new products, positive environmental and social impacts of product implementation are assessed and confirmed. The impact is presented using a statement on sustainability aspects (CSR/ESG statement) which is an integrated part of the tool for product launches. Environmental targets such as the expansion of green energy or electromobility, increased energy efficiency and the reduced use of natural resources are rated positively.

An economic activity should qualify as contributing substantially to one or more of the environmental objectives where it directly enables other activities to make a substantial contribution to one or more of those objectives.

Processes are in place to ensure the mitigation of activities that do significant harm to environmental objectives. One example of this are our lending criteria, consisting of industry exclusions and restrictions in lending. They are accessible via https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG.

HOW WE ADDRESS CLIMATE-RELATED RISKS IN OUR BUSINESS

The implemented risk management framework ensures the effective identification, measurement and management of risks across the Group and forms the basis for informed risk-based business decisions. It enables a quick and proactive response to market trends or other deteriorating developments and supports the Bank’s sustainable organic and inorganic growth within the overall risk appetite.

Risk identification

In line with the regulatory expectations, ESG risks are identified as horizontal risks, i.e. they may materialize directly or indirectly through other risk types. With environmental risks being the major driver the following impacts were identified as the basis for the annual risk self-assessment.

Financial Risk	Physical Risk	Potential effects	Transition risk	Potential effects
Credit risk	Extreme weather events decrease the value of collaterals	Higher loss given default (LGD)	High depreciation on carbon-intensive assets	Higher probability of default (PD), more need for depreciation
	Extreme weather events decrease the debt sustainability	Higher probability of default (PD), more NPL`s	Lower income from debtors due to carbon tax	Higher probability of default (PD)
	Higher temperatures decrease productivity/ income	Higher probability of default (PD), more NPL`s	More investments in new, riskier technologies	Higher probability of default (PD)
Market risk	Extreme weather events increase price volatility	Increasing volatility of real interest rate	Changes in consumer behavior	Shift in demand, price volatility
	Extreme weather events devastate entire regions	Risk concentration for smaller regional banks	Missing the turnaround towards climate-neutral assets	Stranded assets, more need for depreciation
	Uncertainty about extreme weather events	Increasing risk premiums	Rising inflation expectations due to carbon taxes	Higher uncertainty about real interest rates
	Extreme weather events lead to rapid capital outflow	Increasing risk pertaining to exchange rate	Devaluation of countries, that have high CO_2 emissions	Stranded assets, increasing risk premiums
	Rising sea level increases country risk	Value of government bonds decreases, fewer riskless assets available	Higher uncertainty about future technologies/laws	Increasing risk premiums
Liquidity risk	Sudden withdrawals because of extreme weather events	Rollover risk, regional bank runs	Stranded assets can no longer be traded	More need for depreciation
	Sudden demand for emergency loans	Rollover risk		
Reputational risk	Contagion due to close proximity to affected regions	Increasing risk premiums	Lack of concentration on climate risks	Downgrade of ratings, increasing risk premiums
			Stigmatization of companies	Loss of customers, less attractive employer

Climate Risk

To asses the transition risk it is necessary to determine which activities emit relatively more CO2 and would therefore be more effected by a carbon tax and portentially result in stranded assets. For the Corporate lending the climate risk heatmap builds the basis for the identification of sectors and geographies with high transition risk. Special focus lies on high emitting sectors (>1,000 tCO2/mln€).

As can be seen in the table below, less than 2% of the exposure lies in moderate-high emission industries. Of those customers in these sectors a big proportion are state owned or partially state owned companies, which means that their commitment towards a carbon neutral transition can be considered very high.

Table: Moderate-high/high emitting exposures[1)]

Corporates, Real Estate & Public	Exposure (€m)	% of total exposure
Electricity, gas, steam and air conditioning supply	522.0	0.8%
Manufacture of chemicals and chemical products	60.0	0.1%
Crop and animal production, hunting and related service activities	36.9	0.1%
Water transport	29.6	0.0%
Manufacture of basic metals, fabricated metal products, except machinery and equipment	24.4	0.0%
Mining and quarrying	1.6	0.0%
Manufacture of other non-metallic mineral products	0.1	0.0%
Manufacture of coke and refined petroleum products	0.0	0.0%
Total	**674.8**	**1.1%**

1) Definition of moderate-high/high emitting sectors according to ECB climate stress test exercise: NACE sectors with >1,000 tCO2/mln€

The transition to a low-carbon economy for real estate lending is connected to an improvement of the energy performance of real estate collaterals. As data availability remains the biggest challenge, the automated collection of energy performance certificates via an internally developed interface was implemented in 2022. The climate risk heat map consists of data from the OECD on the distribution of CO2 emissions per capita per country per sector. This highlights which industry in a given country contribute most to this countries carbon emissions and makes it a comparable indicator on a per capita basis. The physical risk tool used for the assessment of the portfolio is based on geolocations with varying granularity based on the risk type. For example the base data is more granular for flood risk than it is for heat stress since those impacts can be pinpointed to more specific locations. The risks are modelled for different time horizon and RCP scenarios based on data by WRI, CMIP5, NOAA and Climate Central. Physical risks arising from individual extreme weather events and the related consequences are mainly connected to flood risk in mortgage business in our core markets in the DACH region as well as sea level rise risk in the Netherlands. While flood risk in Austria and Germany is rather limited based on the asset locations, sea level rise risk in the Netherlands is more relevant. As the possibilities for the direct mitigation of these rather long-term risks are very limited, the focus lies on sufficient risk-bearing capacity. Additional haircuts are considered within our internal stress test. In addition, most of the Dutch mortgages are NHG-guaranteed. We will continuously monitor these risks and maintain sufficient buffers.

Lending criteria

BAWAG Group has defined lending criteria for the Corporate segment according to which all customers are screened. If a company is involved in one of these areas and can be held responsible for its involvement, it can be excluded or restricted in lending. The restricted/prohibited criteria are reviewed on a regular basis and may change. The currently applicable list of lending criteria is published and accessible via https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG.

ECB climate risk stress test

As an SSM[3)] institute, BAWAG Group participated in the first stress test on climate and environmental risks where the ECB assessed how prepared banks are for dealing with financial and economic shocks stemming from climate risk scenarios over a 30 year time horizon. We successfully completed the exercise with an above average overall rating (ca. top 35% of banks) considering all the elements assessed and indicating a rather low impact of climate risks related to our business model. Additionally, in the seven highest GHG-emitting sectors as defined by the ECB for the stress test, BAWAG has 8.7% of total non-financial corporate exposure to these sectors. This compares favorably to a median of 29% exposure to these sectors among all participating banks in the ECB climate stress test sample. However, we continue to work on the development and expansion of our Climate & Environment risk management and will implement the learnings gained from this exercise.

Internal ICAAP and stress test framework

ESG risk is also considered within BAWAG Group's ICAAP[4] and stress test framework. A separate scenario has been implemented comprising the following components:

- Macroeconomic effects
- Idiosyncratic shocks for transition and physical risk
- Operational risk effects

As a result of the annual risk assessment, a quantification and usage of internal capital is maintained for ESG risks to ensure sufficient buffer and is monitored monthly versus allocated limits.

Product implementation process

The product implementation process (PIP) plays a central role in the development of new products and services, entering new markets and making important changes to existing products, services and markets. All risks, such as credit risk, market risk and operational risk, must be taken into account during product development. Since the beginning of 2020, the assessment of ESG criteria in the product implementation process has been mandatory.

3-3
FS 2
FS 11

In 2022, all newly launched products were reviewed for CSR/ESG aspects. Prior to launching new products, the responsible product managers were asked to assess and describe potential impacts of product implementation in respect of environmental, social and governance aspects. The impact is queried and presented using a statement on sustainability aspects (CSR/ESG statement), which is an integrated part of the tool for product launches:

- Environmental: Among other things, the expansion of green energy or electromobility, increased energy efficiency and the reduced use of natural resources such as paper are rated positively.
- Social: Factors such as the accessibility for people with special needs, the reduction of discrimination, the fight against poverty and the expansion of educational opportunities are rated positively.
- Governance: Compliance with internal guidelines such as the Code of Conduct, anti-corruption and data protection was defined as a mandatory requirement for a product launch.

A total of 23 PIPs were conducted, 7 of which met at least one environmental criteria, 7 of which met at least one social criteria and all met the governance criteria.

3) Single Supervisory Mechanism: The Single Supervisory Mechanism (SSM) refers to the system of banking supervision in Europe. It is composed of the ECB and the national supervisory authorities of the participating countries. As it is directly supervised by the ECB, BAWAG is an SSM institution.

4) Internal Capital Adequacy Assessment Process

FS 1

PIP guideline and internal training

CSR/ESG information is part of the guideline on the product implementation process. It states that every product idea must be evaluated for ESG criteria before the product implementation process is started. In the tool used, CSR/ESG data related to product implementation is stored automatically in a centrally available database and can be used for reporting.

Furthermore, we determine the suitability of the product for certain customers, ensuring that customers are given products that are appropriate for risk tolerance, financial goals etc, and this is incorporated into the sales process.

ESG target

By increasing funding for environmental and climate-related expenditures, we can support the collective progress towards sustainable development goals and emissions reductions.

To ensure that investments are channeled towards economic activities that make the greatest positive impact on the environmental objectives, we have committed ourselves to organizational ESG targets. One example is our ESG target in green financing. Green finance broadens access to environmentally friendly goods and services for individuals and businesses, and supports the transition to a low-carbon economy. Opportunities for green finance can serve as productive capital with reasonable risk and return dynamics. We expect green financing to reach at least € 1.6 billion of our new business annually by 2025, compared to € 0.8 billion in 2020, based on EU taxonomy or EU taxonomy-aligned purpose outside of the EU.

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SDG 1
SDG 8
SDG 9
COP 9

Financing

Corporates & Public Sector business

In the public sector segment, a refinancing loan was concluded with the EIB in December 2020 (volume: € 100 million). The focus is on investment projects by municipalities, municipal associations etc. in the areas of climate, energy, education, water/waste recycling and health care. A large part of this urban development refinancing EIB loan has already been successfully deployed in 2021 and 2022 by supporting mainly investments in the educational and water supply/wastewater disposal segment. EIB urban development loan: https://www.eib.org/de/projects/loans/all/20200238

In addition, numerous companies, municipalities and the public sector place their trust in BAWAG when it comes to financing and implementing projects. Of the infrastructure projects that the Bank has (co-)financed in recent years, the majority were projects that accelerated the expansion and improvement of infrastructure in rural regions throughout Austria. The individual facilities mostly ranged from € 0.5 million to € 5 million in 2022 and were used for the following projects:

- Education: BAWAG finances numerous educational institutions in Austria. These include various properties, ranging from educational campuses to schools and day care centers
- Water management: Both water supply and wastewater disposal (filtration plants, decarbonization) are financed
- Health care sector: financing of medical centers
- Utilities: financing of green projects of energy suppliers
- Grocery retailer: ESG-linked financing
- Railway logistics: financing of expansion of goods terminal – road on rail

BAWAG granted ESG-linked financing during 2022. However, the volume was non-material.

Beyond this, BAWAG is constantly working on broadening funding for German affordable/social housing companies. BAWAG's corporate customers also include companies that promote the expansion of alternative energy generation facilities, operate important health care facilities, contribute to the preservation of Austria's flora and fauna and provide further education and training for people with disabilities or who have difficulties in getting access to the labor market.

SME customers – corporate financing

SDG 1
SDG 8

The SME unit retained its ability to support companies with microfinancing. New business in microfinance under € 5,000 for SME customers amounted to over € 44,000 in 2022 (overdraft facilities and one-time loans). The SME upload function that was implemented in 2020 (i.e. business documents can be uploaded and branch visits or printouts can be reduced) has been extended again and offers customers the possibility to uploard their documents 24/7, thus making it accessible to even more customers.

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SDG 12
SDG 13

Retail customers – consumer and housing financing and leasing

- Mortgage loans: BAWAG has implemented the data item from the energy performance certificate which has to be created for every new building and every existing property in case of sale (legal obligation). The data (which is included in the energy certificate) can be read out automatically. The energy performance certificate enables the customer to take measures on energy efficiency.
- Debt collection policy: In 2021, BAWAG Group implemented its debt collection policy. We strive to provide sustainable financial assistance solutions, tailored to customers' individual circumstances, that consistently deliver the right outcomes. The solution offered is always based on an individual assessment of customer circumstances, in which we look to ascertain (a) the reasons for and nature of financial difficulties, and (b) current and future affordability levels. The debt collection policy is accessible via https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG.
- Building society loan: start:bausparkasse is the only building society in Austria offering a building society loan for financing housing measures with a 30-year fixed interest rate.
- Dutch mortgages with state guarantees: In the Netherlands, we offer access to state-guaranteed mortgages, thereby providing a broader range of customers access to affordable mortgage loans.
- Car leasing: easyleasing is fully focused on the automotive business with about 90% of business volume coming from this area. Besides car leasing, an installment model called "easykauf" is offered to customers to finance used cars. A significant difference versus a consumer loan is the risk proposition – "easykauf" is a secured loan where the credentials for approval are significantly lower compared to an unsecured consumer loan. Therefore, BAWAG provides prospective borrowers even easier access to finance their vehicle. By signing such a contract, customers agree to keep the car in good condition – which is often a "natural" incentive for customers to do so as the majority of customers buy the used car after the end of the financing period.

Investments

FS 7
FS 8
SDG 13

Amundi: broad range of investment funds with an ESG approach

It is particularly important for a bank to assume social and ecological responsibility with regard to investments. BAWAG predominantly distributes funds of other providers. Within the offered funds – Amundi Ethik Fonds, Amundi Ethik Fonds ausgewogen, Amundi Ethik Fonds Evolution, Amundi Öko Sozial Euro Short Term Bond, Amundi Öko Sozial Euro Aggregate Bond, Amundi Öko Sozial Dollar Bond, Öko Sozial Euro Corporate Bond, Öko Sozial Net Zero Ambition Bond, Öko Sozial Global High Yield Bond, Amundi Öko Sozial Stock and Amundi CPR Climate Action and eight Amundi ETFs from our cooperation partner Amundi Austria, as well as BGF ESG Multi-Asset, Candriam Sustainable Equity Emerging Market, Robeco Sustainable Global Stars Equities Fund, RobecoSAM Sustainable Water and Schroder ISF Global Climate Change from our cooperation partners within BAWAG Best In Class – BAWAG offers 16 mutual investment funds and eight ETFs that focus on ESG aspects. The individual securities and international issuers of funds are selected according to strict ethical and ecological exclusion criteria (decided by Amundi and the respective fund company) so that the sustainable, ecological and social orientation of the investment is ensured. All Amundi funds have been awarded the EUROSIF transparency logo for sustainability funds, and the Amundi funds from Austria have also been awarded the Austrian Ecolabel for sustainable financial products. During the course of 2022, customers further increased their demand for sustainable investing: BGF ESG Multi-Asset from our cooperation partner BlackRock was the best-selling fund in BAWAG's retail segment in 2022.

BAWAG does not manufacture or issue funds. BAWAG has only a limited product offering for portfolio management under the Südwestbank and easybank brand.

Accounts and cards

Social inclusion accounts at BAWAG

SDG 1 BAWAG's **"New Chance" account,** which was introduced in 2009, is designed for people who would otherwise be excluded from payment transactions. Neither the account number nor the sort code indicate that a customer has such an account. This prevents customers from being directly or indirectly stigmatized in the course of carrying out their financial transactions. In addition, our **consumer payment account**, which is in line with the Consumer Payment Account Act, offers all people very affordable access to a bank account. Especially people experiencing financial difficulty can get this flat rate account including an account card for € 40 per year. Beihilfenkonten (budget accounts) enable specific target groups (such as asylum seekers) to participate in financial life and carry out financial transactions.

Around 5% of total current accounts are social inclusion accounts. Taking into account the allocation of social inclusion accounts, the current split is 76% for "New Chance" accounts, 23% Beihilfekonten (budget accounts) and <0.1% for customer payment accounts.

COP 8 KontoBoxes – simple and paperless

The KontoBoxes S and L offer maximum convenience and are focused on customers who would like to conduct their account transactions online and offline. The application process and the opening of the account take place completely online. The paperless account opening application was rolled out to more channels in 2021. We went live with our full online application on the easybank and BAWAG website: As a result, we can offer a fully digital and paperless application process from home to all new customers with the legal forms of "non-prot. EU," "prot. EU" and "GmbH." Especially during the lockdowns, no branch visits were needed to open a current account. Even if the current account is opened in a branch, the process is completely paperless.

Qlick – installment loans

Installment loans under the Qlick brand are offered exclusively digitally as well.

Debit Mastercard

Customers can use the Debit Mastercard to make online purchases without a credit card. This makes it possible for customers who do not want a credit card or who are not eligible (e.g. due to creditworthiness reasons) to make purchases from online merchants without being disadvantaged by lower security standards. It uses the internationally standardized 3D Secure for Mastercard products procedure, which simply requires free registration.

Credit cards

All our BAWAG, easybank and PayLife credit card customers have the option of retrieving their PIN for payment approval directly in the app, the easybank app or myPayLife, thus eliminating the sending of a PIN letter by regular mail.

Apple Pay

Apple Pay is provided for all debit cards and credit cards, which offers contactless and paperless payments.

Instant payments

In November 2022, a further milestone was achieved through the greater adoption of information technology and use of these opportunities, as real-time instant payments were launched, leading to a significant indirect economic and social impact with even higher future potential: Technology-wise, we implemented a real-time infrastructure that is capable of moving €100,000 per transaction across Europe as fast as a chat message. This means that our customers can send and receive payments within a maximum of 20 seconds from all over Europe – senders receive a confirmation message, also within these 20 seconds, that the funds have arrived in the beneficiary account – all after having done a couple of security checks. This technology enables customers to use more functionalities, easing their daily financial lives and supporting real-time flexibility.

SOCIAL RESPONSIBILITY AND PERSONAL COMMITMENT

We see education as one of the most important cornerstones to keep the partnership of our industry with society at eye level. With a higher level of (financial) education and accessibility of education opportunities, we strive to help people to increase their knowledge and well-being, where we play an active role in creating partnerships and developing projects. Education should never be a question of the origin or education level of one's parents. We believe in supporting projects with a social purpose across all age groups, mainly in the markets we are operating in. We focus on projects on a long-term basis and give our commitment to initiatives for many years. Therefore, many of our campaigns and measures have a long tradition, which is important for the financial structure of projects with a social purpose. Moreover, we see contributions to a good cause as an important factor to help people in need. We are proud of our team members for their community involvement and will continue to support this outreach through both financial support and volunteerism. Therefore, we are committed to intensifying our measures: One target area, for example, will be focused on increasing corporate volunteering activities. BAWAG Group accepts its social responsibility and is committed to socially relevant issues.

Our commitment should bring benefits and added value to people. We regularly donate to initiatives and social projects as a company. In 2022, we increased the amount of our donations: A total of over € 250,000 was donated by employees and the Bank (2021: € 200,000). Since 2014, BAWAG has been using the crowdfunding.at platform to support social projects and ecologically sustainable projects by individuals or private organizations in presenting their undertakings to the public and raising funds through crowdfunding contributions from private individuals. So far, funding of more than € 1,000,000 has been raised. On the platform, social projects from the areas of work, housing, education, health, culture, environment and technology are put in the spotlight. In 2022, financing was raised via this platform for projects focusing mainly on less privileged members of our society, from organizations including Caritas, Red Noses and the Austrian Red Cross.

Financial literacy

Furthermore, BAWAG intensified its social commitment to financial education with the Children's Office at the University of Vienna. The Children's Office at the University of Vienna brings together children from all social backgrounds and motivates them to be curious throughout their lives. In doing so, it conveys a very important message to the next generation, which is also close to our heart as a bank: Education is the best investment for the future! Education helps people to make self-determined decisions and also has a positive influence on the way they handle money, for example. As a bank, it is important to us to support outstanding projects in the field of education.

A couple of milestones were achieved in 2022: Following up on the volunteer day in December 2021 where numerous colleagues participated in a virtual CoCreation Workshop dedicated to building the foundation for developing financial workshops for children, the next corporate volunteering day took place in April 2022. The representatives of Kinderuni facilitated a workshop in which our employees contributed their time and knowledge during a couple of brainstorming sessions (e.g. answering children's questions, giving feedback on ideas for workshop sequences etc.). The results of this workshop formed the basis for the development of lectures that were kicked off at KinderUni in June 2022 and have been held on a regular basis ever since.

To promote the development of financial literacy at an early age, BAWAG continued to use a financial quiz for children aged 6 and older to help them get started in their financial lives that was developed by Three Coins in 2020: Each child can complete the Safe&Cool check on the BAWAG website free of charge, either independently or together with their parents. The check with its ten questions teaches the fundamentals of sensible consumption and saving, and also how to handle personal bank data safely. The check is also designed as an introductory quiz for all Safe&Cool allowance accounts at BAWAG, in order to establish a foundation for the safe handling of money in the digital world.

Social engagement

Support for refugees of Ukraine/special project with Haidehof

Over the past few months, employees have supported our in-kind donation campaign at ICON as well as a (monetary) donation campaign to Volkshilfe, CARITAS and SOS Kinderdorf – the donations collected were rounded up by the Bank, bringing the total donation value to € 75,000, one third of which went to each of the participating organizations.

Furthermore, a long-term partnership was established in close cooperation between the Management Board, the Works Council and the Workers' Samaritan Association (Arbeitersamariterbund): The main focus of this partnership has been to support displaced persons from Ukraine who have been housed in the Haidehof emergency shelter in Vienna Simmering. A couple of examples show the ongoing support during 2022, focusing on several employee initiatives:

- Donations and in-kind donations: Employees raised money to buy urgently needed goods for daily use - especially clothing and hygiene articles. Several other in-kind donations were provided on an ongoing basis (e.g. toys, sports equipment etc.) throughout the year.
- School startup packages and books for children: A total of 100 school startup packages were given to children in need. Furthermore, a business customer of BAWAG donated books for children.
- BAWAG "Wichtelchallenge": Many families were not able to celebrate Christmas in their home country this year because they had to flee the war in Ukraine. For this reason, the Samariterbund asked children and young people of the families in care about their Christmas wishes. The result was a list of individual and personalized wishes that employees fulfilled. The children's and young people's wishes included toys, sports equipment and vouchers for clothing, winter shoes, etc.

BAWAG Women's Prize

In 2022, Monika Langthaler, M.Sc., was awarded the 10th BAWAG Women's Prize. The €5,000 award recognizes outstanding achievements by women and special commitment to positioning women in society. Monika Langthaler has been working on the topic of sustainability for years, linking ecological and social issues with the business world. She is the organizer of an annual climate protection conference held in Vienna, the AUSTRIAN WORLD SUMMIT. In recent years, this has created an international network that connects stakeholders from the political, business and financial worlds to the UN, NGOs, regions and cities. BAWAG appreciates Ms. Langthaler's great commitment to imparting knowledge on climate protection and sustainability topics as well as her efforts in international networking. In addition to the award, the BAWAG Women's Initiative identified a fundraising project to be supported with €5,000 on the occasion of the award ceremony: The Train of Hope association was once again active in 2022 to support those people who have had to flee the war in Ukraine. Train of Hope has been operating an arrival center in Vienna with many volunteers since March 2022 and provides acute assistance, initial care and support for those seeking protection. The donation check from the BAWAG Women's Initiative was presented to the co-founder of Train of Hope, Manuela Ertl.

Corporate volunteering

In 2022, employees again could use up to two working days per year to volunteer for charitable organizations and projects without having to take vacation days.

Kinderuni

In June 2022, the first workshop with a school class took place at DOCK. During the workshops (~3 hours each), volunteers accompany the different workshop methods and serve as banking experts, mainly focusing on answering the children's questions during the "Special Guest" part of the program. Their experience as someone who deals with money on a daily basis has been in demand, and practical insights into working life have been a very valuable contribution for the students. In the course of the second half of the year, a couple of workshops were held in which BAWAG employees participated.

Beach Cleaning Days

Partnering with Oceanblue, an organization offering companies the opportunity to make their individual contribution to conserving and cleaning the oceans, BAWAG offered its employees the opportunity to participate in two BAWAG Community Days, dedicated to corporate volunteering and saving the environment. In June 2022, 116 employees participated in the first BAWAG Community Day to make a meaningful contribution to a better and healthier environment. The participants formed groups and were equipped with the appropriate tools – gloves, dip nets, grabbers and garbage bags – to clear the banks of the Danube side waters and the green areas in the Floridsdorf water park. The collected garbage weighed 190 kg. In September, 43 employees made a meaningful contribution to a better and healthier environment. This time, the BAWAG Beach Cleaning day took place on Danube Island. The participants cleared the section between the Reichsbrücke and Brigittenauer Brücke bridges, resulting in a haul of about 150 kg of garbage.

Table: Corporate volunteering (hours)

Name of organization	# hours 2022
Ocean Blue	795
Kinderuni	55
Other (Arbeitersamariterbund, CARITAS & Direkthilfe)	41
TOTAL	891

SDG 4 **Additional activities**

- Licht ins Dunkel: In 2022, BAWAG once again supported Licht ins Dunkel with a total donation of € 50,000. Of this amount, € 20,000 were allocated to the "Licht ins Dunkel" emergency aid fund. The organizations SOS-Kinderdorf Moosburg (pet therapy for children and teenagers), Lebenshilfe Bruck – Kapfenberg (new Institution: Wohnen Bruck) and Österreichische Krebshilfe Steiermark (project: Mum/Dad are diagnosed with cancer) each received donations of € 10,000.
- Arbeitersamariterbund Vienna: In December 2022, BAWAG donated € 20,000 to Arbeitersamariterbund.
- "Ö3 Weihnachtswunder": Initiated by one dedicated employee, an internal fundraising campaign was started: The nationwide "Ö3 Weihnachtswunder" (Ö3 Christmas Miracle) campaign, which was launched in 2014 to benefit the Licht-ins-Dunkel emergency aid fund, is organized annually by radio station Ö3 and broadcast live on Ö3 during 120 hours before Christmas. Around € 11,500 were raised by employees, and the Bank increased the donated amount to € 20,000.
- Red Noses (Carinthia): A donation of € 5,000 was made.
- Christkindl letters: Colleagues from Salzburg, Tyrol and Vorarlberg took part in the Christkindlbrief campaign organized by Caritas in Salzburg. Together, around 50 gifts were handed over to to Caritas.

SDG 1 BAWAG has been the main bank of numerous charitable organizations in Austria for decades.

HUMAN RESOURCES: EMPLOYEE PROMOTION AND DEVELOPMENT, DIVERSITY AND EQUAL OPPORTUNITY

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

Our culture and values are defined by accountability, humility and embracing change. We value leaders who are dynamic, lead with uncompromising integrity, have a strong work ethic and do not shy away from taking hard decisions. Our Senior Leadership Team, which has led our transformation over the past decade, have an average of 14 years of working experience at BAWAG. We do our best to maintain a simple Group structure and flat organization. We encourage all team members to focus on the work at hand, cut out the noise and always challenge the status quo for the betterment of the team.

We believe our diversity, inclusivity and meritocratic culture are a real source of strength. We are fully committed to gender equality and diversity. Our diversity and gender equality will be a byproduct of merit, integrity and work ethic. Our greatest asset is our human capital, so we are focused on developing and mentoring our team members across the ranks.

At BAWAG Group, people from 53 nations, from all age groups, with different sexual orientations, with limitations and different faiths, work together every day. Diversity and equal opportunity for all employees are key success factors for the Group and are the responsibility of the management, implemented operationally by Human Resources and put into practice by all managers and employees of the company. All BAWAG Group employees, whether full-time or part-time, are to be treated equally and fairly. BAWAG Group does not tolerate any discrimination based on age, gender, disability, sexual orientation, origin or religion. BAWAG Group also firmly rejects any form of bullying, sexual harassment, threats and violence.

We support our employees in developing their talents and skills at different levels of their career. While offering specific programs, we also provide a wide range of training opportunities to help develop their personal as well as professional skills. Due to COVID-19 conditions, several training sessions and workshops were still held online – but on-site training was offered, as well. Thus, training plans could be successfully completed in 2022.

PROMOTING DIVERSITY AND EQUAL OPPORTUNITY

ESG targets

Promoting and embracing a true culture of meritocracy enables us to attract, develop and motivate our team members, which underpins our success. Most importantly, our meritocracy allows us to guard against complacency. In 2021, we embedded HR-related ESG targets into our operating plans: In terms of diversity, we have established a female gender quota of 33%, for both the Supervisory Board as well as the Senior Leadership Team, by 2025.

Attracting and retaining the right mix of employees is challenging. We have made great progress over the last few years with the initiatives set. One key aspect of our women's promotion plan has been to encourage women to participate in personnel development programs. We encourage women to take on leadership roles, in particular after maternity leave.

Women's Advancement Plan

The Women's Advancement Plan, which has been in place since 2012, serves as a binding framework for promoting equality and ensuring equal opportunity for women and men in the company. The plan is based on four principles and concrete measures: sensitization, equal career opportunities, financial equality and promoting a better work-life balance for women and men.

Women's Initiative

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The BAWAG Women's Initiative is a network of female experts and female managers from all areas of the Bank supported by the Management Board of BAWAG Group. The goal of the initiative is to promote equality for women in BAWAG Group in the form of achieving career goals in management or expert positions, monetary equality and the compatibility of family and career.

Women's Mentoring Program

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The Women's Mentoring Program is aimed at female employees with longer management experience who would like to benefit from internal and external top managers from the business world as mentees and broaden their horizons as well as at all female colleagues who would like to develop themselves further, have already gained initial leadership experience or would like to move in this direction. The goal of the Women's Mentoring Program is to give female employees the opportunity to deal intensively with the topic of women and careers, to have an in-depth personal exchange with their mentors and to build a network within the Bank. In this program, top executives from BAWAG Group make themselves available to the female mentors to share their experience in joint discussions and to provide advice to the mentees.

During the mentoring year, the mentees are offered professional and personal development content in workshops, networking events and extensive further training as part of the BAWAG Academy. Participants have the opportunity to talk to internal experts on the topics of finance, risk and retail, as well as to exchange ideas with members of BAWAG Group's Management Board in a very personal setting during business talks. The 7th BAWAG Group Women's Mentoring Program was successfully completed in Q3 2021. The current Women's Mentoring Program will be finished in Q1 2023.

Women's Award

In September 2022, the 10th BAWAG Women's Award was presented to Monika Langthaler. The € 5,000 award recognizes outstanding achievements by women and special commitment to positioning women in society. Monika Langthaler has been working on the topic of sustainability for years, linking ecological and social issues with the business world. She is the organizer of an annual climate protection conference held in Vienna, the AUSTRIAN WORLD SUMMIT. In recent years, this has created an international network that connects stakeholders from the political, business and financial worlds to the UN, NGOs, regions and cities. BAWAG appreciates Langthaler's great commitment to imparting knowledge on climate protection and sustainability topics as well as her efforts in international networking. In addition to the award, the BAWAG Women's Initiative identified a fundraising project to be supported with € 5,000: Organized and founded spontaneously by members of civil society in September 2015 to help people who have fled, the Train of Hope association is once again in action this year to support those people who have had to flee the war in Ukraine. Train of Hope has been operating the Engerthstraße arrival center in Vienna with many volunteers since March 2022 and provides acute assistance, initial care and support for those seeking protection. The donation check from the BAWAG Women's Initiative was presented to the co-founder of Train of Hope, Manuela Ertl.

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DIVERSITY FIGURES

Table: Change in the number of employees

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	2022	2021
Number of employees	3,305	3,671
Fluctuation rate (in %)[1)]	11%	13%

1) Not including employee departures under the social plan. The calculation was performed on the basis of headcount.

Table: Extent of employment

	2022	2021
Full-time	**2,117**	**2,364**
Female	967	1,088
Male	1,150	1,276
Part-time	**1,188**	**1,307**
Female	939	1,025
Male	249	282

Table: Type of employment relationship by gender

	2022	2021
Permanent	**3,213**	**3,577**
Female	1,852	2,056
Male	1,361	1,521
Temporary	**92**	**94**
Female	54	57
Male	38	37

Table: Type of employment relationship by country

	2022	2021
Permanent	**3,213**	**3,577**
Austria	2,784	3,098
Germany	359	428
Other	70	51
Temporary	**92**	**94**
Austria	84	79
Germany	6	15
Other	2	0

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Table: Gender breakdown (in %)

	2022	2021
Female	58%	58%
Male	42%	42%
Proportion of women in management positions	35%	36%

Tables: Workforce/governing bodies by age group and gender[1]

2022		Age group <30	30–50	>50	Number
Male	Senior Leadership Team (SLT) (incl. Management Board) [1]	0	50	13	63
	Employees outside the SLT	233	551	552	1,336
Total (male)		**233**	**601**	**565**	**1,399**
Female	Senior Leadership Team (SLT) (incl. Management Board) [1]	0	15	10	25
	Employees outside the SLT	414	876	591	1,881
Total (female)		**414**	**891**	**601**	**1,906**
Total		**647**	**1,492**	**1,166**	**3,305**

2021		Age group <30	30–50	>50	Number
Male	Senior Leadership Team (SLT) (incl. Management Board) [1]	0	48	9	57
	Employees outside the SLT	268	627	606	1,501
Total (male)		**268**	**675**	**615**	**1,558**
Female	Senior Leadership Team (SLT) (incl. Management Board) [1]	0	16	6	22
	Employees outside the SLT	461	1,008	624	2,093
Total (female)		**461**	**1,024**	**630**	**2,115**
Total		**729**	**1,699**	**1,245**	**3,673**

1) We reconstituted our Senior Leadership Team (SLT), which is currently made up of 88 team members, including our core markets (DACH, Western Europe and the US).

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	2022	2021
Supervisory Board (number of members)	9	9
thereof male	5	5
thereof female	4	4

	2022	2021
Supervisory Board by age group	9	9
30-50	2	2
>50	7	7

RECRUITING

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BAWAG Group stands for equal opportunity and diversity. All employees of BAWAG Group, whether in full-time or part-time employment, shall be treated fairly and equally, regardless of age, gender, disability, sexual orientation, origin (national and ethnic), religion or belief.

As multipliers, our recruiters have transferred this knowledge to the managers of BAWAG Group Austria in the introductory workshops on the recruiting tool. BAWAG Group's recruiting workflow tool is successfully in use and continues to support the recruiting process. The recruiting policy defines key principles and rules of the internal and external recruiting process and is aligned with the strategic and cost-related corporate objectives. BAWAG Group generally promotes open-ended employment relationships. Leasing personnel are only taken on in exceptional cases.

404-2 EMPLOYEE DEVELOPMENT

Programs for new hires

Come & Learn internship
BAWAG Group offers students interesting insights into professional life in up to six-month internships. The interns can further develop the knowledge they have acquired during their studies. They actively work on bank-specific projects and tasks and not only gain valuable practical experience in various specialist areas, but also learn about the Bank's processes. Internships at BAWAG Group offer ideal entry-level opportunities for a successful career at the company.

Trainee program
The trainee program is targeted at university graduates. As part of the one-year program, trainees gain comprehensive insight into the company supported by job rotations, work on bank-related projects and can build up an initial internal network. In addition, they receive in-depth training in their assigned area and within the scope of the BAWAG Academy and can continuously expand their capabilities.

Programs for existing employees

Promoting talents, (new) leaders and experts is a key pillar of our people development strategy at BAWAG Group. When selecting program participants and specific training opportunities for employees, a balanced ratio of women and men is considered. When assessing and creating individual development programs for employees, we partner with external educational institutions to develop or deliver joint training programs for our staff. In spring 2022, the leadership training for new managers was resumed: It supports new leaders in their tasks and provides answers to daily professional challenges within the framework of the program, such as teamwork and leading in remote working situations. As preparation for the program, the PCM (Process Communication Model) methodology is used, with the help on an online-based analysis that describes human personality and communication behavior. A new cohort has already started at the end of 2022.

Targeted, Group-specific use of the wide range of online training courses offered by the GoodHabitz learning platform has been a major success. These trainings courses promote continuing education for every employee across the entire Group. With over 100 online training courses, this tool enables employees to develop a wide range of personal, leadership, teamwork and technical skills.

The focus continues to be on expanding social, professional and methodological skills. The BAWAG Academy (founded in 2020) consisting of webinars, impulse lectures and online training courses, offers enhancement of professional knowledge: The competences of our own experts are passed on to employees in a structured manner, thus actively stimulating knowledge transfer. Experienced executives and management teams are supported through individual (management) coaching and strategic team workshops to meet specific needs. A training academy (BAWAG Academy Technical Training) for all data analyst trainees was executed successfully in fall 2022, broadening new content (Python & Data Stack Training, Data Scientist Training with focus on predictive models, data pipelines and model lifecycle management). The BAWAG Academy also provides in-depth internal hands-on training (e.g. banking expertise, technical and programming skills).. Each webinar lasted between 1.5 to 3 hours.

Succession planning

BAWAG Group is proud to be an organization that makes promotions based on merit. Employees' potential, career progression and the corresponding promotion opportunities are determined based on talent, ambition and performance. Career opportunities and career paths are defined in line with strategic succession planning. A Group-wide leadership goal for the senior leadership team made leadership development, succession planning, talent development and talent improvement a top priority of leadership. Therefore, an integrated strategic workforce plan is in place: One part of an integrated bundle of measures is related to our recruiting strategy: In 2022, 55% of new hires were female. Furthermore, all of our training and development programs are assessed and re-calibrated on a regular basis in order to ensure we are on track to meet our target of a female gender quota of 33% in our Senior Leadership Team by the end of 2025.

The Extended Management Board has been in place since 2019 to provide senior managers with a broader platform for strategic discussions and know-how transfer with the Management Board.

BAWAG provides transition assistance programs to facilitate continued employability and the management of career endings resulting from retirement or termination of employment. Examples are flexible agreements to reduce working hours (e.g. higher age) and partial retirement. When contracts are terminated, BAWAG offers support in case there is a need for retraining after a termination (e.g. programs for further education like WAFF).

Growth Academy for sales managers

A one-year course, the Growth Academy, was created for both potential future managers and sales experts. The objective is to strengthen the communication and cooperation across the team on the one hand, and to develop numerous predetermined social and sales skills in cooperation with external and internal trainer on the other. The involvement of the management of retail sales and the top management of the Bank also ensures that theory and practice are closely synchronized. Furthermore, this also gives sales employees the opportunity to actively exchange ideas with top management.

WEP 1 Leadership development for sales managers – Leader's Choice

In order to provide existing managers with the best possible training, various influencing factors are taken into account. Varied role profiles in sales, differentiated requirements and the strategic orientation of branch sales must be considered. Additionally, input from the results of potential analyses, current performance and sales surveys are required inputs. The aim is to offer sales managers a diverse and tailored range of courses in personal development, leadership and specialist topics to give them the tools they need to lead their teams to success. As the title also describes, topics for leadership and personality development are offered as elective modules. In selecting the topics, the wishes and suggestions of the sales executives as well as trends in the banking industry were taken into account. Each manager will find the optimal training measures for him or her in order to be well equipped for day-to-day management.

Personality analysis for sales managers

In order to tailor the ongoing development of managers to the individual in addition to the standard programs, managers in sales receive profiles from two personality analyses that complement each other: TMA (Talent and Motivation Analysis) is an online-based tool for analyzing people's talents and motives. The TMA measures talents and competencies relevant to the work context. PCM (Process Communication Model) is an online-based analysis that describes human personality and communication. This profile helps to better understand communication, motivation and stress triggers. Training is available to active BAWAG Group employees in Austria regardless of whether they work full or part-time.

Training for all employees: Tailor-made approaches to mitigate retention risks

In general, training measures are accessible to all employees (full-time or part-time) of the entire Group. During FS 4
feedback process, specific areas for the further development of employees can be identified and corresponding measures can be agreed. The executed training measures vary between a tailor-made concept (e.g. individual coaching), broadening of bank know-how (e.g. job-specific development) and individual development programs, especially targeted at talents and high performers.

The onboarding pages are continuously reviewed and revised and are posted on the Bank's intranet to serve as support for new employees during their first days at BAWAG Group. In the first few weeks, employees get to know the Bank through mandatory self-learning programs (see the Ethics and integrity section) and individual training sessions in their teams. The increasing significance of sustainability issues is a topic of high importance for us: ESG Officers steer projects and processes as a decentralized body. Example: After a first step in which risk officers attended a special workshop on ESG risk management with an external expert, particularly ESG risks, instruments and methods as well as related challenges were discussed. In a second step, all employees received an overview of sustainability topics in a mandatory self-learning program. In a third step, all employees in the Retail and Business Customers division, employees who offer securities advice, employees in the Corporate Banking division and employees in the Risk division were given in-depth training on the topics of sustainable business and ESG and their application in day-to-day business in a mandatory self-learning program by the end of February 2021.

With these measures, BAWAG Group is pursuing the goal of creating company-wide awareness of sustainability, promoting product innovations in the long term and integrating ESG considerations into the Bank's business processes. In addition to self-learning programs and training offered by BAWAG Group, employees also have the opportunity to develop their professional skills through external training and workshops. The specific requirements and prerequisites are determined in regular personal discussions with the direct supervisor. The content and scope of training is tailored to the needs of our employees and the business requirements. BAWAG Group also supports specific training needs (e.g. CFA, MBA, external training) through additional study time, reimbursement of costs or annual membership coverage (e.g. CEFA, CRM, CIIA, CISSP, CISA). BAWAG Group supports employees in Austria in their professional reorientation through a work foundation in cooperation with WAFF. The work foundation helps employees plan their return to work, provides for financial security during this time and arranges training and further education as well as internships. If desired, the work foundation also provides support in the active search for a job.

Table: Training days by gender

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2022[1)]	Total days	Average days	Hours
Female	5,949	4.3	47,592
Male	5,692	5.3	45,536
Total	**11,641**	**4.8**	**93,128**

2021[1)]	Total days	Average days	Hours
Female	5,086	3.0	40,688
Male	5,042	3.7	40,336
Total	**10,128**	**3.3**	**81,024**

Tables: Training days by position

2022[1]	Total days	Average days	Hours
Managers			
Female	663	6.0	5,304
Male	971	5.0	7,768
Sales employees			
Female	2,609	8.6	20,872
Male	2,491	11.1	19,928
Employees in central functions			
Female	2,677	2.8	21,416
Male	2,230	3.4	17,840

2021[1]	Total days	Average days	Hours
Managers			
Female	487	3.4	3,896
Male	760	2.9	6,080
Sales employees			
Female	2,549	3.99	20,392
Male	2,689	6.7	21,512
Employees in central functions			
Female	2,050	2.2	16,400
Male	1,593	2.3	12,744

1) A training day is defined as eight hours

Special training for headquarters employees

New employees start their banking career with a "welcome day" workshop. This workshop provides initial insights into the Bank and its strategy, followed by presentations related to risk management, information security and internal audit. In addition, the risk department is presented to all new employees, with a focus on the risk strategy and risk governance. New hires also receive insights on the Group Data Warehouse and the importance of data for our operations. In the presentation on information security, practical examples are used to sensitize new employees and to share guidelines and advice on individual precautionary measures.

Special training for sales staff

Sales Camp: training new sales employees
New employees start off their branch assignment with a welcome day. The sales staff then start their basic training, the Sales Camp. All new employees are supported and guided by their own supervisor. In the Sales Camp, new branch employees go through versatile training modules – technical knowledge and personal skills (such as sales training) are taught. BAWAG takes the blended learning approach into account when training its employees, i.e., versatile and varied training approaches. In addition to classroom training, there are numerous online training courses, with (mandatory) self-study programs (SLPs) that employees work through independently – completed between training sessions and practice days.

Professional development in sales
After the Sales Camp, employees can continue their professional training in securities or housing loans. For both specializations, the training courses are structured similarly and consist of four modules: preparation tasks, training, follow-up tasks and examination/certification.

After the training, we offer employees the chance to take part in a workshop. This allows them to discuss their initial experiences, clarify any questions and consolidate the knowledge they have gained. We also employ a mentoring system: Every new employee is assigned to an experienced mentor. Several self-learning programs as well as online and face-to-face training are available for all sales staff to keep their knowledge up-to-date while meeting the legal further training requirements.

Competencies and sales training

Special topics are offered annually for the further development of competencies, customer orientation or sales techniques – depending on the current strategy and focus. The training methods are varied and range from on-the-job training in the branches to online courses and classroom training over several days. At Südwestbank, employees have the opportunity to complete internal and external seminars on a variety of topics such as personality training, technical training and specialist and sales seminars. Satisfaction with the respective training measure is evaluated after the sessions. Südwestbank attaches great importance to needs-oriented personnel development. The Personnel Development department plans measures for the personal and professional development of employees in close coordination with management and the department heads. In addition to internal Bank opportunities for further training, there are also external courses and bachelor’s and master’s programs in which Südwestbank participates through targeted support measures.

Branch coaching

To support sales employees regarding branch-specific individual challenges, topic-specific coaching tailored to the respective needs has been offered by professionally trained internal trainers on-site in the branches.

EMPLOYEE EXPERIENCE

COVID-19

The health and safety of our employees are paramount to us: In the third year of the pandemic, the internal COVID-19 taskforce – established in 2020 – continued to hold regular virtual meetings to discuss national and international COVID-19 developments and their impact on our sites and business, coordinate measures with management and communicate actions to employees and customers through our channels. Broad-based communication campaigns were launched for employees throughout BAWAG Group and across all subsidiaries and brands. This included BAWAG's Stay safe! communication campaign. "Remote working preferred" was the motto for the central functions, meaning that it was recommended to work mainly from home if possible. At the end of Q2, BAWAG Group offered employees the possibility to register via the intranet to get an appointment for a COVID-19 booster vaccination. During the entire year, the COVID-19 task force did regular updates due to changing legislation to inform employees about updated health protocols in fighting the pandemic. The COVID-19 pandemic had no impact on agreed working time models of employees or the termination of employment.

WEP 2

Flexible work

At BAWAG Group, there are many benefits available that are accessible to full- and part-time employees, across all entities and countries. Working in a flexible environment with hybrid teams will remain an important pillar of the culture at BAWAG Group in the future. The experience of the past two years has shown that working flexibly from different locations works well for many areas and brings benefits for employees and the Bank. A survey conducted in 2022 showed that the majority of our employees would like to continue using flexible working. BAWAG Group has worked with the BAWAG Works Council to develop appropriate regulations and recommendations. The respective flex-office guide for employees and managers is still in use and is part of the new leaders' program, for example.

In most organizational units, variable working hours with defined function times apply. Individual time models can be agreed upon, including a reduced daily working time or an aggregate number of hours during a certain number of days per week. We offer a variety of models and options for employees who wish to take time off from work or reduce their working hours due to personal commitments. These include:

- Educational leave for 2–12 months
- Part-time work for education for 4–24 months
- Sabbatical: a combination of a savings phase in which the employee receives only a portion of the usual monthly salary, and a time-off phase
- Part-time reintegration: reintegration on a part-time basis after a long period of sick leave for an agreed period of 1–6 months, with the additional option of extending for three months.
- Family hospice leave for three months with extension options and special conditions for seriously ill children
- Caregiver leave for one week per year, a second week for the necessary care of a sick child under 12 years of age
- Nursing leave/part-time care leave for 1–3 months
- Flex-office – flexible working locations

Working in a flexible environment with hybrid teams will remain an important pillar of the culture at BAWAG Group. The experience of the past few months has shown that working flexibly from different locations functions well for many areas and brings benefits for employees and the Bank.

Balance between work and family

SDG 4
SDG 5
WEP 2
WEP 3

BAWAG Group works continuously to offer its employees a flexible and family-friendly working environment. As a responsible employer, it is important to BAWAG Group that the various phases of its employees' lives can be reconciled with their work, their families and their free time. At the employee's request, BAWAG Group in Austria offers the option of remaining in marginal employment during parental leave. This model is intended to make it easier for those on parental leave to return to work. The Group also offers employees flexible working hours and part-time models after paternal leave. Depending on the management position, this option is also offered to executives. Human Resources supports them in agreeing individual part-time models, clearly defined structures and responsibilities.

401-3 **Table: Parental part-time work**

	2022	2021
Total number of employees who took parental leave in the reporting period	**261**	**270**
Female	230	240
Male	31	30
Total number of employees who returned to work after taking parental leave in the reporting period	**84**	**77**
Female	67	60
Male	17	17
Total number of employees who returned after parental leave and were still employed 12 months later	**86**	**104**
Female	72	82
Male	14	22
Return rate		
Female	92%	92%
Male	85%	80%
Retention rate		
Female	91%	73%
Male	82%	91%

Certification

In 2013, BAWAG committed itself to the compatibility of work and family as part of a structured auditing process and received certification as a family-friendly company, which is valid for three years. BAWAG most recently received the certificate in 2020 and this is still valid. At the same time, we also participated in the new "Home Office/Mobile Working" certification for the first time and successfully received this certificate.

Dad month and special leave days

We are pleased to support fathers at BAWAG in taking parental leave or taking advantage of the so-called dad month. Since 2014, all fathers at BAWAG have also received two additional special leave days immediately after the birth of their child on top of the two special leave days to which they are entitled under the collective agreement. This gives fathers an additional four days to spend with their family.

Company day care center at central location

BAWAG Group offers childcare at the company day care center at the central location in Vienna. Part-time employees, single parents and employees with special working time arrangements are given priority in the allocation of open slots.

Support for the care of family members
BAWAG Group offers employees the opportunity to provide emergency care and/or elderly care. The access is given upon request and dealt with on the basis of special situations. Since 1 January 2014, it has been possible to take caregiver leave or part-time caregiver leave after prior agreement with the respective manager. Employees can take care leave for one month up to a maximum of three months or reduce the working hours to a minimum of ten hours per week. The entire process is handled by the Federal Ministry of Social Affairs.

Information event for expectant parents and welcome back event
All expectant mothers and fathers at BAWAG Group are invited to online information events held twice a year on the topic of parental leave management and re-entry into the Bank. Since 2009, Human Resources and the Works Council have organized a welcome back event which allows a smooth transition for employees returning from parental leave.

2-25 Communication platforms and grievances

Information is disseminated to employees via communication platforms. A special SharePoint platform has been implemented to cover the additional information requirements in sales. In 2022, town hall meetings with the Management Board were held online and offline. All employees were invited to participate in these events. Management Board members also used this form of online meetings to pass on updates and important information directly to their teams.

BAWAG Group promotes open dialog between managers and employees. Employees can address concerns or complaints directly to their supervisor. Human Resources follows a structured procedure to investigate justified complaints and takes appropriate action when an employee grievance is substantiated. Further details on grievance procedures can be found in BAWAG's Grievance Procedure Principles, which are published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

Furthermore, employee surveys were carried out in 2022. On the one hand there was a broader survey on the topic of “working from home”, and on the other hand short, division-specific surveys were conducted.

Occupational Health and Safety

403-1
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BAWAG has a comprehensive management system for occupational health and safety that applies to all employees of BAWAG Group. The internal requirements are derived, among other things, from external guidelines and laws, such as the EBA Guideline, ASchG, OIB guidelines and construction notices. The implementation of and compliance with the guidelines are regularly checked by internal inspections and audits. BAWAG's safety manual summarizes key aspects of this - these include the following topics: Dealing with environmental hazards, fire protection regulations, conduct in hazardous situations, security technology in branches, access regulations for office buildings, house rules and key management. BAWAG's preventive specialists advise the employer, employees and the Works Council on workplace design based on the applicable legal provisions. As part of this activity, workplace inspections are carried out at BAWAG's branches and office buildings in cooperation with occupational health specialists. One measure involves information and instruction regarding ergonomic computer workstations.

A separate Security group deals with the topic of physical security. The aim is to ensure the highest possible level of safety in the company through mutual exchange with employees and technical solutions. The potential options for how employees can report work-related hazards and dangerous situations are set out in the various work manuals. In addition to the safety manual, there are various work instructions that regulate, for example, how to deal with fire-hazardous activities, controls safety technology and how to deal with dangerous threats. In addition, there is a telephone contact facility at BAWAG's security center that employees can turn to at any time if such situations arise. The handling of emergencies are also clearly regulated, as are the handling of first aid and the topic of fire protection. In addition to the work manuals, a separate section on the topic has been set up on the intranet. Employees do not have to fear reprisals if they report work-related hazards or dangerous situations – this is laid down by general employee protection and internal processes.

The prevention of work-related psychological stress is carried out for each subsidiary or department in the form of an online survey by the external occupational psychologist from the occupational health service. The services offered by BAWAG Group are available to all employees (both part-time and full-time employees are entitled to them). All employees are covered by the measures. The framework conditions are presented comprehensively on the intranet. Employees can find everything they need to know about bank security, employee protection, information security and cybersecurity, and business continuity management. Physical security includes access regulations, training and manuals for different situations and contact situations. In the area of employee protection, employees will find comprehensive information on occupational medicine, occupational psychology, computer workstations, first aid and other topics.

Business continuity management (BCM) is the establishment and ongoing maintenance and development of an effective emergency and crisis management system. Due to legal regulations (§39 of the Austrian Banking Act – duty of care) and a Management Board mandate, BCM must be provided for all areas. The aim is to ensure that important business processes are not interrupted, or only temporarily interrupted, in critical situations and in emergencies, and to safeguard the economic existence of the company despite loss events.

To raise awareness, the new mandatory self-learning program Employee Protection was offered in 2022. The content included additions to the existing SLPs Display Screen Workplace and SLP Fire Protection: employee protection at BAWAG Group, safety and health protection, protection of use, working materials, safety data sheet, safety and health protection labeling, personal protective equipment, dangers in the office, work design and employees’ duties.

Occupational health services

Occupational medicine is a preventive discipline within the framework of employee protection, which deals with the relationship between work-related influencing factors and the health of employees. It influences the design of the workplace and work processes in order to improve working conditions and prevent health hazards. The tasks of occupational medicine include: ergonomic consultations, workplace inspections, work environment (room climate, noise), advice on the selection of new work equipment, reintegration after long periods of sick leave, advice on physical and mental impairments, individual consultations by appointment, eye tests, organization of first aid, non-smoker protection, maternity protection evaluation and advice, cooperation with occupational psychologists, safety specialists and safety confidants, advice and support for the employer and the Works Council. Information on this is transparently accessible on the intranet. The services of the company coordination include: occupational medical examinations and assessments, treatment of acute illnesses, vaccinations, medical first aid and physical therapy. It is possible to take advantage of a free annual preventive medical check-up from the age of 19. Employees can also obtain all the information they need about the reimbursement of therapy costs (subsidies for psychotherapeutic treatment) at the company office.

In addition to occupational medicine, employees can also regularly contact the occupational psychology department of the AMD (Occupational Medicine Service), which offers a wide range of services for employees and managers of BAWAG Group on a variety of issues. In addition to dealing with topics related to workplace health promotion and evaluating workplaces for psychological stress, the occupational psychologists continue to offer regular occupational and health psychology consultation hours. The appointments can be made individually and take place either directly on-site at the company office or digitally or by telephone. During these personal consultations (confidentiality is mandatory!), topics such as dealing with stressful working conditions and conflicts, sleep problems, ways of coping with stress, and the promotion of relaxation can be addressed and worked on. On the one hand, the occupational psychologists try to provide orientation, point out new perspectives and, if necessary, further points of contact, and on the other hand, existing resources and health skills are to be strengthened. In addition, extensive information on nutrition and exercise tips as well as relaxation exercises is available on the intranet.

Employee participation, consultation and communication on occupational health and safety

BAWAG’s preventive specialists for employee protection advise the employer, employees and the Works Council on workplace design based on the applicable legal provisions. As part of this activity, workplace inspections are carried out at BAWAG’s branches and office buildings in cooperation with occupational health specialists. The Occupational Safety

Committee (ASA) meets at least once a year: Participants include employees/preventive specialists and safety experts from the Bank, decision-makers from EF, HR, the Works Council, occupational physicians, occupational psychologists and safety officers from the Bank. All topics and measures relevant in this context are evaluated here in retrospect for the past year and looking ahead to the coming year, requirements are checked, focal points are defined and measures are discussed.

All employees are covered by the measures. The framework conditions are comprehensively presented on the intranet: In this area, employees can find everything about bank security, employee protection, information security and cybersecurity, and BCM.

Employee training on occupational safety and health protection

Regular training sessions on occupational health and safety are held – either in the form of on-site seminars or as part of self-learning programs, such as the Employee Protection self-learning program, which was primarily aimed at raising awareness about how to deal with dangerous situations in the workplace. In addition, first aid courses were held in 2022 to ensure that sufficient first aiders are available. Participants each completed half of the required training hours online and then attended a practical day at ICON. Six first aid courses were held at ICON, with a total of 97 employees attending. In addition, training courses for safety officers and fire safety officers were again held in 2022 on behalf of EF. The training courses were held in cooperation with an external consultant.

Promoting employee health

In 2022, the focus here was on eye examinations in accordance with the Display Screen Equipment Ordinance by the occupational physicians of the AMD/Occupational Medical Service (medical history, eye test, advice on display screen glasses, information on eye [muscle] relaxation exercises, advice on working in a home office). The measures also include inspections and advice for employees at ICON on ergonomics in the workplace. Health talks on topics such as ergonomics in the home office, mental, psychological and social challenges, and back health at computer workstations are also taken into account. In connection with part-time reintegration, employees from HR draw up plans for reintegration and support. In addition, webinars were offered by occupational psychologists on the topics of "Strengthening strengths – mastering challenges positively," "Leading in the world of work 4.0" (explicitly for managers), and the new, eight-part webinar series on the topic of "Resilience" was started. In addition, broad-based information on nutrition and exercise tips as well as relaxation exercises is available on the intranet. In principle, the above-mentioned measures (despite different requirements) apply to all BAWAG Group operating sites in Austria and Germany and thus to the relevant employees. In order to avoid or mitigate potential negative effects on occupational health and safety, the continuous deployment of trained (in-house) preventive specialists (from the EF area as well as AMD occupational physicians), the safety specialists, the first-aiders, the evacuation officers and the safety confidants is ensured.

Other company social benefits

Table: Other company social benefits

401-2

in € thousand	2022	2021
Travel allowances	197	592
Pension fund contributions	7,155	7,547
Anniversary bonus payments	2,380	1,922[1)]
Allowances (especially for marriage/birth/death, WAFF)	295	113
Health insurance	181	194
Accident insurance	385	401
Subsidy for supplementary health insurance	150	193
Corporate food allowance	1,433	1,429
Company physician and health programs	171	138
Company day care center	185	215
Employee events (especially Christmas vouchers/Christmas dinner/excursions)	251	56
Subsidy for the Works Council (vaccination campaigns, vacation rooms, sports club etc.)	295	295
Total	**13,078**	**13,094**

1) Restated

Benefits

The benefits offered by BAWAG Group are available to all employees across all regions, both full-time and part-time. Some benefits are, in general, granted from the first day of employment, while some benefits apply only after switching to an unlimited employment relationship or fulfilling the respective waiting period.

Employee stock program

The Management Board, Supervisory Board and Workers Council proudly provide each team member with an opportunity to also be an owner of the company. Therefore, BAWAG Group launched two employee participation programs in 2022: In the first program – the "BAWAG Employee Participation Program 2022" – all employees received 25 BAWAG Group AG shares as recognition of their dedication and commitment, a total of 64,875 shares. Under the second program – the BAWAG Matching Program 2022 – employees received one additional BAWAG Group AG matching share for every three shares they acquired, up to a maximum value of € 2,000 of matching shares. The total number of granted matching shares was 19,427.

Additional tables on employee promotion and development, diversity and equal opportunity

Table: Exits

401-1

	2022	2021
By country		
Austria	392	369
Germany	82	113
Other	11	12
By age group		
<30	204	203
30–50	197	192
>50	84	99
By gender		
Female	246	255
Male	239	239

Table: Exits

in %	2022	2021
By country		
Austria	81%	75%
Germany	17%	23%
Other	2%	2%
By age group		
<30	42%	41%
30–50	41%	39%
>50	17%	20%
By gender		
Women	51%	52%
Men	49%	49%

202-1 **Table: Ratios of standard entry level wage by gender compared to local minimum wage**

	2022	2021
Female		
Austria	1.22	1.22
Germany	1.22	1.16
Other	N/A	N/A
Male		
Austria	1.22	1.22
Germany	1.24	1.20
Other	N/A	N/A

Starting salaries for new employees are mostly above the minimum wage stipulated in the collective bargaining agreement.

405-2

Table: Ratio of basic salary of women to men

	Ratio Average	Ratio Median	Gap Average	Gap Median
Group	**60**	**81**	**40%**	**19%**
Excl. Management Board	**72**	**81**	**28%**	**19%**
Austria (excl. MB)	**78**	**81**	**22%**	**19%**
SLT	61		39%	
Manager	82		18%	
Staff	86		14%	
Germany (excl. MB)	**72**		**28%**	
SLT	N/A		N/A	N/A
Manager	78		22%	
Staff	77		23%	

Table: Ratio of total Remuneration of women to men

	Ratio Average	Ratio Median	Gap Average	Gap Median
Group	**49**	**79**	**51%**	**21%**
Excl. Management Board	**66**	**80**	**34%**	**20%**
Austria (excl. MB)	**74**	**81**	**26%**	**19%**
SLT	50		50%	
Manager	82		18%	
Staff	85		15%	
Germany (excl. MB)	**69**	**76**	**31%**	**24%**
SLT	N/A		N/A	N/A
Manager	73		27%	
Staff	75		25%	

The gender pay gap is a reflection of BAWAG Group's structure. The Bank has a share of ~55% female hiring, however less female representation in management functions. Therefore, BAWAG Group aims to tackle this structural issue by offering women-specific trainings, workshops as well as mentoring. In addition, we have set a target for a women quota of 33% in the Senior Leadership Team by 2025.

Table: New hires

401-1

	2022	2021
By country		
Austria	295	205
Germany	62	34
Other	22	8
By age group		
<30	196	155
30–50	137	65
>50	46	27
By gender		
Women	210	143
Men	169	104

Table: New hires

in %	2022	2021
By country		
Austria	78%	83%
Germany	16%	14%
Other	6%	3%
By age group		
<30	52%	63%
30–50	36%	26%
>50	12%	11%
By gender		
Female	55%	58%
Male	45%	42%

ENVIRONMENTAL AND CLIMATE PROTECTION

ENVIRONMENTAL FIGURES

SDG 13 **Table: Environmental indicators**[1)]

		Unit	2022	2021
	Material consumption			
	Paper use	kg	180,701	160,445
	Bank statement envelopes	Piece	3,547,364	4,910,262[2)]
302-1	**Energy consumption**			
302-2	Total electricity consumption	kWh	7,253,705	8,093,078
	Space heating			
	Gas	kWh	3,717,691	3,915,356
	District heating	kWh	4,456,934	5,327,975
	Total space heating	kWh	8,259,488	9,419,041
	District cooling[3)]	kWh	616,005	899,862
	Heating oil[4)]	kWh	84,863	175,710
	Fleet/mobility			
	Fleet gasoline	kWh	418,681	289,360
	Fleet diesel	kWh	1,074,144	1,336,681
	Air travel	kWh	1,000,259	353,476
	Total energy consumption	kWh	18,622,282	20,391,498
305-1	**CO_2 emissions**[5)]			
305-2	Scope 1 – direct emissions			
305-3	Vehicle fleet	t CO_2-e	480	528
	Space heating (gas)	t CO_2-e	996	1,049
	Heating oil	t CO_2-e	28	58
	Subtotal Scope 1	t CO_2-e	1,504	1,636
	Scope 2 – indirect emissions from energy purchases (market-based)			
	Electricity	t CO_2-e	0,5	0
	District heating/cooling[6)]	t CO_2-e	1,081	1,163
	Subtotal Scope 2	t CO_2-e	1,082	1,163
	Scope 2 – indirect emissions from energy purchases (location-based)			
	Electricity	t CO_2-e	2,070	2,079
	District heating/cooling	t CO_2-e	1,081	1,163
	Subtotal Scope 2	t CO_2-e	3,151	3,242
	Scope 3 – other indirect emissions			
	Air travel	t CO_2-e	182	114
	Subtotal Scope 3	t CO_2-e	182	114
	Total CO_2 emissions (Scope 1–3, market-based)	t CO_2-e	2,768	2,854
	Total CO_2 emissions (Scope 1–3, location-based)	t CO_2-e	4,837	4,933
302-3	Energy intensity (total energy consumption / average FTE)	kWh/FTE	6,283	6,319
305-4	Energy intensity (total energy consumption / core revenues in €m)	kWh/€m	13,998	16,714
	GHG intensity (Scope 1-3, market based / average FTE)	t CO_2-e/FTE	0.93	0.88
	GHG intensity (Scope 1-3, market based / core revenues)	t CO_2-e/€m	2.08	2.34

1) The energy consumption data is shown on the basis of current billing information. Due to different billing periods, it is not possible to present the data as of the reporting date.

2) Reporting period 2021: Restated value for 2021 (scope: bank envelopes only).

3) District cooling consumption applies exclusively to BAWAG Group headquarters. Restated value for 2021 because of wrong data delivered by provider.

4) Heating oil has only been reported since 2020 and just for BAWAG P.S.K.

5) Minor deviations may occur due to rounding of decimal places. The calculation method of the CO_2 balance is carried out in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and for each year refers to the currently published emission factors of the Austrian and German Federal Environment Agency, the German Agency for Renewable Energies and electricity labels of various energy providers. In addition to CO_2, all other gases with GHG potential – including methane and nitrous oxide – are taken into account in the greenhouse gas (GHG) balance according to their impact on the climate. District cooling was not included in the Scope 2 calculation, because no emission factors were available.

6) For district heating, the conversion factor of location-based was used. District cooling not converted due to missing factor in 2021.

MEASURES AND INITIATIVES

Even though the environmental impact caused directly by banks is very limited, BAWAG Group is aware of its indirect responsibility and pays attention to the environmental hazards that may arise from its financing business. We aim to minimize impacts on the environment with products, services and in the daily work of all employees. By regularly optimizing energy consumption at our sites and in our IT infrastructure and by focusing on local suppliers, we aim to contribute to reducing the environmental impact of our business activities. Environmental and climate protection create the foundations for the long-term existence of our company. Through our commitment, we position ourselves as a responsible partner and employer that helps create a future worth living in. As a bank, we contribute to sustainable change by providing loans for innovative, resource-conserving business activities. By cooperating with local suppliers and service providers in the DACH region, we contribute to short transport routes and CO2 savings, as well as to increasing value creation in the countries where we do business. Furthermore, we support the protection and continued existence of our sites through climate protection measures.

ESG targets

ESG is a thread that runs through our business strategy – therefore, we have committed ourselves to tangible ESG targets, which we are embedding into our operating plans: To further reduce our carbon footprint, we are planning to reduce our CO2 emissions (Scope 1 and Scope 2) by >50% by 2025. We will achieve this through investments in efficient and sustainable space heating and cooling, efficiency measures regarding space requirements and a complete conversion of our fleet to electric cars.

Supplier management

2-6 204-1 SDG 8 SDG 13 SDG 16 COP 1 COP 2 COP 4 COP 5 COP 6 COP 8 COP 10

The Supplier Code of Conduct defines our expectations towards suppliers with regard to environmental protection. As already mentioned, each supplier is obligated to commit to these principles before entering into a business relationship with BAWAG Group. In the course of the supplier onboarding process, commercial, professional/technical, legal and general parameters surrounding the future cooperation are comprehensively examined and evaluated. As part of the harmonization of procurement processes, a single policy is used across the entire Group, which ensures a uniform approach towards purchasing. Additional internal guidelines govern all topics relating to the organization, procedures and systems in the procurement process. These processes stipulate that, in the case of multiple offers with the same price/performance ratio, the more sustainable company shall be preferred.

Around 72% of all spending by BAWAG (incl. easybank, SWB, helloBank) went to local suppliers[1] in 2022. Procurement consists primarily of software and information services, marketing, rent, insurance and facility management/business equipment.

Operations management

SDG 7 SDG 13

100% green electricity and energy efficiency

BAWAG Group supplies all of its sites with green electricity. This had already been achieved in 2020 to a large extent and was also driven forward in 2021 and 2022. THE ICON VIENNA building continues to hold the highest Leadership in Energy and Environmental Design certification of “Platinum” and the Building Research Establishment Environmental Assessment Method certification of “Excellent.” Work continued on the submissions for certification. In 2022, BAWAG continued its branch consolidation program.

Using green electricity is one step, however for us it is also important to generally reduce the amount of electricity consumed. Therefore we have established light sensors in our offices. In our branches we invest in LED lights and sustainable and low energy consuming products. In addition to the light sensors our outdoor signage utilize automated timers.

Green postal and courier services

1) Suppliers with their main location in Austria, Germany or Switzerland are considered “local.” International companies whose branches are located in the aforementioned countries and who submit invoices to BAWAG Group are also classified as “local” in the presentation.

In 2020, an electric vehicle was purchased for the internal logistics of BAWAG Group's central locations in Austria. Südwestbank has already been using an electric vehicle to carry out inner-city courier services for several years. Österreichische Post AG continued to deliver all BAWAG items in a CO2-neutral manner. Südwestbank sent letters and parcels in a climate-neutral manner using GOGREEN. With the help of an independent measurement system, the CO2 emissions of all shipments are precisely assessed. Greenhouse gases are offset by supporting various climate protection projects.

Fleet management
As one of the measures to reduce our own Scope 1 and 2 emissions over 50% by 2025, BAWAG Group started to switch to electric cars for our fleet of company cars. We plan to have no conventional cars in the fleet by 2025.

Waste management
BAWAG Group has set various initiatives to not only reduce waste in our own operations, but to limit hazardous waste to very low levels. We have removed all single-use plastic cups, straws, sachets and bottles in our offices in Germany and Austria, which cover 41% our real estate. At our headquarters, we have kitchen facilities on each floor, where, for example, water facilities are available so employees have a good alternative to plastic bottles.

At our headquarters, we separate waste to the maximum extent possible. Glass, metal waste, plastics and biological waste are collected separately and delivered for recycling, and the heat of the residual waste burned in waste incinerators is used for district heating and/or cooling. Electronic devices are recycled (~8 tons in 2022).

Water management
We are aware of that water is a scarce resource in many countries around the world. In summer 2022, we have also lived through a heat wave in Europe, where water became a scarce resource as well, raising the awareness on climate change.

While for a bank, the consumption of water is limited to office buildings – and therefore not a material factor – however, we have taken a variety of steps to conserve water. Among other things, we rely on the use of rainwater in the ICON as service water for the toilet facilities. To reduce water will turn more difficult to us, as a lot of initiatives have already been taken.

Our water came solely from the municipal water supply or other public or private water utilities. We did not use any surface water, ground water, seawater, produced water, or third-party water. In the headquarter, rain water gets collected and is used for sanitation.

Digitization of processes
Various initiatives are in place to digitalize our processes and reduce our application and therefore server infrastructure footprint. On the process side, we reduced paper- and letter-based interactions across our front, mid and back offices. A number of products are opened and processes are completed leveraging paperless branch and digital signature technologies. Unless customers specifically request it, payment transaction slips and documents for product closings are not printed out but transmitted electronically. On the infrastructure side, we are streamlining our architecture and decommissioned our own data centers. We partner with technology leaders who are committed to achieving net zero carbon footprint by 2030.

In addition, BAWAG Group employs energy-efficient and resource-saving devices for its IT infrastructure. More than 6,000 laptop and desktop computers, tablets, monitors and workstations in use at BAWAG Group in Austria have Energy Star certification and are thus more resource-efficient than standard devices.

Commuting/remote working

For 2023, we are planning to disclose the CO2 emissions for the commute of our employees as well as remote working. However, we have set initiatives in the past to reduce CO2 emissions in this area. Our headquarters is located at Vienna Central Station, which provides broad-based access to public transport. In addition, we have continuously reduced provided parking spaces and the spaces available today are very limited, so people get incentivized to use public transport. Also, 66% of our employees in Vienna live within Vienna.

Biodiversity

BAWAG does not own, lease or manage operational sites in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

APPENDIX

GRI INDEX

This GRI Index was prepared in accordance with the Global Reporting Initiative 2021 guidelines (GRI Standards, application level "in accordance with GRI Standards," option industry-specific indicator set for financial services). Unless otherwise stated, all data refer to the year 2022 or 31 December 2022. In the course of the materiality process, BAWAG Group identified its key areas for action. These were assigned to the individual GRI topics. The following table provides an overview of the material topics and the corresponding GRI indicators according to the GRI Standards. In addition, GRI codes have been provided alongside the text content in the sections of this report.

Areas of action	GRI codes
Economic success	201-1, 201-2, 201-3, 201-4, 202-1, 202-2
Ethics and integrity	205-1, 205-2, 205-3, 206-1, 207-1, 207-2, 207-3, 207-4, 415-1, 418-1, 419-1
Responsibility towards customers	417-1, 417-2, 417-3, FS 13, FS 14
Sustainability in our core business	203-1, 412-1, 412-2, 412-3, FS 1, FS 2, FS 6, FS 7, FS 8, FS 11
Social responsibility and personal commitment	
Employee promotion and development, diversity and equal opportunity	401-1, 401-2, 401-3, 404-1, 404-2, 404-3, 405-1, 405-2, 406-1, FS 4, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8, 403-9, 403-10
Environmental and climate protection	204-1, 302-1, 302-2, 302-3, 302-4, 302-5, 305-1, 305-2, 305-3, 305-4, 305-5

GENERAL DISCLOSURES

GRI code		Content according to GRI Standards (core)	Reference	Notes
The organization and its reporting processes	2-1	Organizational details		Consolidated Annual Report 2022, p. 5 and p. 12 et. seq and p. 24
	2-2	Entities included in the organization's sustainability reporting		Consolidated Annual Report 2022, p. 191
	2-3	Reporting period, frequency and contact point		Reporting period: 1 January 2022 – 31 December 2022 (in line with Consolidated Annual Report 2022) Reporting date: 8 March 2023 Frequency: annually Contact point for questions regarding the report: csr@bawaggroup.com
	2-4	Restatements of information		If figures have been adjusted for 2021, we have indicated this with footnotes under the respective tables. The effects of all changes was not material. Table Social benefits: Change in calculatory basis for anniversary bonus payments Environmental table: Restated value for 2021 as change of scope: (bank envelopes only) was in this done. District cooling: Restated value for 2021 because of wrong data delivered by provider.
	2-5	External assurance	p. 347 et seq.	
Activities and workers	2-6	Activities, value chain, and other business relationships		Consolidated Annual Report 2022, p. 191. As of 31 December 2022, BAWAG Group had one headquarters location, three other locations and 72 branches in the DACH/NL region.
	2-7	Employees	p. 317 et seq.	BAWAG does not employ non-guaranteed hours employees.
	2-8	Workers who are not employees		BAWAG does not have any workers who are not employees.
Governance	2-9	Governance structure and composition		See Governance Report section, p. 265-271.
	2-10	Nomination and selection of the highest governance body		See Governance Report section, p. 265-271.
	2-11	Chair of the highest governance body		See Governance Report section, p. 265-271.

	2-12	Role of the highest governance body in overseeing the management of impacts		See Governance Report section, p. 265-271.
	2-13	Delegation of responsibility for managing impacts		See Governance Report section, p. 265-271.. The NFR & ESG Committee is chaired by the Chief Risk Officer (deputy: Chief Executive Officer; deputy: Chief Financial Officer). He reports directly to the BAWAG Group Supervisory Board.
	2-14	Role of the highest governance body in sustainability reporting		See Governance Report section, p. 265-271.
	2-15	Conflicts of interest		See Governance Report section, p. 265-271.
	2-16	Communication of critical concerns		See Governance Report section, p. 265-271.
	2-17	Collective knowledge of the highest governance body		See Governance Report section, p. 265-271.
	2-18	Evaluation of the performance of the highest governance body		See Governance Report section, p. 265-271.
	2-19	Remuneration policies		See Remuneration Report.
	2-20	Process to determine remuneration		See Remuneration Report.
	2-21	Annual total compensation ratio		For BAWAG Group, the ratio of the total annual remuneration of the highest-paid individual compared to the median total annual remuneration of all employees (excluding the highest-paid individual) for the year 2022 is 146 to 1. For the purposes of the calculation, BAWAG Group takes into account all fully consolidated Group companies. The total annual remuneration includes the basic salary, function-related allowances, contributions to pension funds, employee participation programs and one-time payments as well as – if applicable – the annual variable remuneration granted. For part-time employees, total annual compensation was extrapolated to a full-time equivalent; compensation for employees hired during 2022 was annualized. The percentage change in the annual total compensation of the highest-paid individual in BAWAG Group from 2021 to 2022 is minus 11%, while the percentage change in the median annual total compensation of all employees (excluding the highest-paid individual) from 2021 to 2022 is plus 7%.
Strategy, policies and practices	2-22	Statement on sustainable development strategy		Consolidated Annual Report 2022, p. 11.
	2-23	Policy commitments	p. 288	Furthermore, please see our Human Rights Policy: https://www.bawaggroup.com/linkableblob/BAWAGGROUP/536278/530f6d00de2575d79e69e48a034485e3/human-rights-policy-data.pdf and Code of Conduct: https://www.bawaggroup.com/linkableblob/-/443748/d19eec87be5bc747787e2ab13d1404d5/code-of-conduct-data.pdf. The policy commitments apply to all of the organization’s activities and business relationships equally.
	2-24	Embedding policy commitments	p. 288	
	2-25	Processes to remediate negative impacts	p. 327	
	2-26	Mechanisms for seeking advice and raising concerns	p. 299	Furthermore, please see our Grievance Procedure Principles: https://www.bawaggroup.com/linkableblob/BAWAGGROUP/523118/53a89bfa8498b04f6be6280501475ec9/grievance-policy-principles-data.pdf
	2-27	Compliance with laws and regulations		There were no significant instances of non-compliance with laws and regulations in the reporting period. When determining the significance of instances of non-compliance we took into account the severity of reputational, organizational and financial impacts on BAWAG resulting therefrom.
	2-28	Memberships of associations		UN Global Compact, UN Global Compact WEP, Austrian Banking Association (Bankenverband), Austrian Federal Economic Chamber (WKO).
Stakeholder Engagement	2-29	Approach to stakeholder engagement		Ten stakeholder groups were defined in 2018 as part of the materiality process through an analysis by the CSR team and external consultants (CSR

				Report 2018, p. 9). This selection was also used for discussions in 2021 when the materiality matrix was redefined. The stakeholders comprise all material internal and external stakeholder groups and were determined in consultation with sustainability experts who were entrusted with implementing the stakeholder analysis (Consolidated Annual Report 2021, p. 289 et seq)
	2-30	Collective bargaining agreements		Around 90% of BAWAG Group's employees are covered by collective bargaining agreements. (The working conditions and terms of employment of employees who are not covered by collective bargaining agreements are not influenced or determined based on other collective bargaining agreements.)

MANAGEMENT APPROACHES AND PERFORMANCE INDICATORS

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Disclosures on material topics	3-1	Process to determine material topics	p. 277	
	3-2	List of material topics	p. 278 et seq.	

Area of action 1: Economic success

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3	Management of material topics	p. 279	
Economic Performance	201-1	Direct economic value generated and distributed	p. 284	
	201-2	Financial implications and other risks and opportunities due to climate change	p. 286	v. Information unavailable/incomplete. The management of risks and opportunities related to climate change is integrated into BAWAG Group's robust governance framework. However, data availability remains one of the biggest challenges in this regard. We are actively working on the implementation of enhancements to our existing infrastructure to improve the quantification methods within the next year.
	201-3	Defined benefit plan obligations and other retirement plans	p. 287	
	201-4	Financial assistance received from government		To support the Austrian economy in the wake of the Corona crisis, the federal government designed the AWS investment premium, a subsidy program that creates incentives for corporate investments. BAWAG received investment premiums totaling approximately € 0.5 million for for investments in digitization projects and branches.
Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	p. 331	
	202-2	Proportion of senior management hired from the local community		The origin of 100% of the members of the Senior Leadership Team (table "Workforce/Governing bodies by age group and gender") is our core markets (DACH, Western Europe and the US).

Area of action 2: Ethics and integrity

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3 (extended)	Management of material topics	p. 278	
Anti-corruption	205-1	Operations assessed for risks related to corruption		During the risk assessment, no significant risks were identified.
	205-2	Communication and training about anti-corruption policies and procedures	p. 290, 292	
	205-3	Confirmed incidents of corruption and actions taken	p. 292	
Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		No incidents in the reporting period.

	415-1	Political contributions		Political donations are prohibited throughout the Group by the Anti-Corruption Policy.
Taxes	207-1	Approach to tax	p. 296	
	207-2	Tax governance, control and risk management	p. 296	
	207-3	Stakeholder engagement and management of concerns related to tax	p. 296	
	207-4	Country-by-country reporting		Annual report, note 66.
Rights of Indigenous Peoples	411-1	Incidents of violations involving rights of indigenous peoples		There were no identified incidents of violations of the rights of indigenous peoples. In general, there are grievance mechanisms in place where any stakeholder can provide feedback.
Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		There were 38 substantiated complaints regarding erasure or rectification of data. Besides these complaints we had 43 data breaches, all of which were solved.

Area of action 3: Responsibility towards customers

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3 (extended)	Management of material topics	p. 279	
Marketing and Labeling	417-1	Requirements for product and service information and labeling	p. 300-301	
	417-2	Incidents of non-compliance concerning product and service information and labeling		There were no violations during the reporting period.
	417-3	Incidents of non-compliance concerning marketing communications		There were no violations during the reporting period.
Community	FS 13	Access points in low-populated or economically disadvantaged areas by type	p. 298	
	FS 14	Initiatives to improve access to financial services for disadvantaged people	p. 298	

Area of action 4: Sustainability in our core business

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3 (extended)	Management of material topics	p. 279	Example: By focusing on the essential topic of "sustainability in core business," we are responding to changing customer requirements, which increasingly emphasize the use of sustainable products and services. At the same time, BAWAG Group wants to live up to its responsibility for sustainability – as opposed to achieving its economic goals at the expense of ecology and social contributions. Examples of its green finance methodology can be found here: https://www.bawaggroup.com/linkableblob/-

				/534994/289e2407a9b6106a0284e8347c942112/202203-technical-summary-data.pdf
	FS 6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/ large) and by sector		In addition to the table on overall sector exposure in the CSR Report, the risk concentration by sector for Corporates, Real Estate & Public Sector is also presented in the Consolidated Annual Report 2022 (p. 231). The distribution of the credit portfolio by size cannot be applied in accordance with GRI requirements based on the available data.
Sector-specific disclosure: Product Portfolio	FS 1	Policies with specific environmental and social components applied to our core business	p. 308	
	FS 2	Procedures for assessing and screening environmental and social risks in our core business	p. 307	
	FS 7	Monetary value of products and services, designed to deliver a specific social benefit for each business line broken down by purpose	p. 309	
	FS 8	Monetary value of products and services, designed to deliver a specific environmental benefit, for each business line, broken down by purpose	p. 309	
	203-1	Infrastructure investments and services supported	p. 308	
Sector-specific disclosure: Active Ownership	FS 11	Percentage of assets subject to positive and negative environmental or social screening	p. 307	BAWAG Group predominantly distributes funds issued by third party manufacturers. BAWAG does not manufacture or issue funds. BAWAG has only a limited product offering for portfolio management under the Südwestbank and easybank brand.
Indirect Economic Impacts	203-2	Significant indirect economic impacts	p. 308	

Area of action 5: Social responsibility and personal commitment

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3 (extended)	Management of material topics	p. 279-280	
		Volunteer hours completed by employees	p. 314	

Area of action 6: Employee promotion and development, diversity and equal opportunity

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3 (extended)	Management of material topics	p. 280	
Sector-specific disclosure: Product Portfolio	FS 4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to our core business	p. 321	
Employment	401-1	New employee hires and employee turnover	p. 331	

	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 330	
	401-3	Parental leave	p. 326	
Training and Education	404-1	Average hours of training per year per employee	p. 322	
	404-2	Programs for upgrading employee skills and transition assistance programs	p. 320	
	404-3	Percentage of employees receiving regular performance and career development reviews		All employees were invited to hold regular performance and development discussions with their managers to promote their further development. It is not possible to disclose 404-3 figures for 2022 as we are currently revamping the frequency and scope of the feedback process. We will provide an update in the 2023 report.
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	p. 317	
	405-2	Ratio of basic salary and remuneration of women to men	p. 332	
Non-discrimination	406-1	Incidents of discrimination and corrective actions taken		No incidents during the reporting period.
Occupational Health and Safety	403-1	Occupational safety and health management system	p. 327 et seq.	
	403-2	Hazard identification, risk assessment and investigation of incidents	p. 327 et seq.	
	403-3	Occupational health services	p. 327 et seq.	
	403-4	Employee participation, consultation and communication on occupational health and safety	p. 327 et seq.	
	403-5	Employee training on occupational health and safety	p. 327 et seq.	
	403-6	Promotion of employee health	p. 327 et seq.	
	403-7	Prevention and mitigation of occupational safety and health impacts directly related to business relationships	p. 327 et seq.	
	403-8	Employees covered by occupational safety and health management system	p. 327 et seq.	
	403-9	Work-related injuries		There were a total of five occupational accidents at BAWAG in 2022 – two of which occurred on the way from home to the office and one in the home office. There were no work-related fatalities. No data is currently available for subsidiaries.
	403-10	Work-related illnesses		There are no reliable data on work-related illnesses.

Area of action 7: Environmental and climate protection

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	3.3	Management of material topics	p. 280-281	
Procurement Practices	204-1	Proportion of spending on local suppliers	p. 289	
Energy	302-1	Energy consumption within the organization	p. 334	
	302-2	Energy consumption outside of the organization	p. 334	
	302-3	Energy intensity	p. 334	
	302-4	Reduction of energy consumption		Not applicable. Reduction of energy consumption primarily through energy-saving measures and reduction of floor space.
	302-5	Reduction in energy requirements for products and services		Not applicable.
Emissions	305-1	Direct (Scope 1) GHG emissions	p. 334	
	305-2	Energy indirect (Scope 2) GHG emissions	p. 334	
	305-3	Other indirect (Scope 3) GHG emissions	p. 334	
	305-4	GHG emissions intensity	p. 334	
	305-5	Reduction of GHG emissions		Not applicable. Reduction of energy consumption primarily through energy-saving measures and reduction of floor space.
	305-6	Emissions of ozone-depleting substances (ODS)		Not applicable.
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions		Not applicable.

27 February 2023

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O'Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

INDEPENDENT ASSURANCE REPORT

2-5 We have performed an independent limited assurance engagement on the combined consolidated non-financial report according to §§ 243b and 267a UGB ("NFI report") for the financial year 2022, which has been published as (consolidated) Non-Financial Report of **BAWAG Group AG, Vienna** (referred to as "BAWAG" or "the Company").

Conclusion

Based on the procedures performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the NFI report of the Company is not in accordance with the legal requirements of the Austrian Sustainability and Diversity Improvement Act (§§ 243b and 267a UGB), the provisions of Article 8 of the Regulation (EU) 2020/852 as amended and the supplementing delegated Regulation (EU) 2021/2178 (hereafter "EU Taxonomy Regulation") and the sustainability reporting guidelines of the Global Reporting Initiative (GRI Standards) Option "in accordance with" in all material respects.

Management's Responsibility

The Company's management is responsible for the proper preparation of the NFI report in accordance with the reporting criteria. The Company applies the legal requirements of the Austrian Sustainability and Diversity Improvement Act (§§ 243b and 267a UGB) and the sustainability reporting guidelines of the Global Reporting Initiative (GRI Standards) Option "in accordance with" as reporting criteria. In addition, the company prepares disclosures in accordance with the EU Taxonomy Regulation, which are published as part of sustainability reporting.

The Company's management is responsible for the selection and application of appropriate methods for non-financial reporting (especially the selection of significant matters) as well as the use of appropriate assumptions and estimates for individual non-financial disclosures, given the circumstances. Furthermore, their responsibilities include the design, implementation and maintenance of systems, processes and internal controls that are relevant for the preparation of the sustainability report in a way that is free of material misstatements – whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to state whether, based on our procedures performed and the evidence we have obtained, anything has come to our attention that causes us to believe that the Company's NFI report is not in accordance with the legal requirements of the Austrian Sustainability and Diversity Improvement Act (§§ 243b and 267a UGB), the legal requirements of the EU Taxonomy Regulation and the sustainability reporting guidelines of the Global Reporting Initiative (GRI Standards) Option "in accordance with" in all material respects.

Our engagement was conducted in conformity with the International Standard on Assurance Engagements (ISAE 3000) applicable to such engagements. These standards require us to comply with our professional requirements including independence requirements, and to plan and perform the engagement to enable us to express a conclusion with limited assurance, taking into account materiality.

An independent assurance engagement with the purpose of expressing a conclusion with limited assurance ("limited assurance engagement") is substantially less in scope than an independent assurance engagement with the purpose of expressing a conclusion with reasonable assurance ("reasonable assurance engagement"), thus providing reduced assurance. Despite diligent engagement planning and execution, it cannot be ruled out that material misstatements, illegal acts or irregularities within the non-financial report will remain undetected.

The procedures selected depend on the auditor's judgment and included the following procedures in particular:

- Inquiries of personnel at the group level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting threshholds of the Company;
- A risk assessment, including a media analysis, on relevant information on the Company's sustainability performance in the reporting period;

- Evaluation of the design and implementation of the systems and processes for the collection, processing and monitoring of disclosures on environmental, social and employees matters, respect for human rights, anti-corruption as well as bribery and also includes the consolidation of data;
- Inquiries of personnel at the group level, who are responsible for providing, consolidating and implementing internal control procedures relating to the disclosure of concepts, risks, due diligence processes, results and performance indicators;
- Inspection of selected internal and external documents, in order to determine whether qualitative and quantitative information is supported by sufficient evidence and presented in an accurate and balanced manner;
- Assessment of the processes for local data collection, validation and reporting, as well as the reliability of the reported data through a (remotely conducted) survey performed on a sample basis at a site or a subsidiary.
- Analytical evaluation of the data and trend of quantitative disclosures regarding the GRI Standards listed in the GRI-Index, submitted by all locations for consolidation at the group level;
- Evaluation of the consistency of the of the Austrian Sustainability and Diversity Improvement Act (§§ 243b and 267a UGB), the EU Taxonomy Regulation and the GRI Standards, Option "in accordance with" to disclosures and indicators of the NFI report, which apply to the Company;
- Evaluation of the overall presentation of the disclosures by critically reading the NFI report.

The procedures that we performed do not constitute an audit or a review. Our engagement did not focus on revealing and clarifying of illegal acts (such as fraud), nor did it focus on assessing the efficiency of management. Furthermore, it is not part of our engagement to audit future-related disclosures, prior year figures, statements from external sources of information, expert opinions or references to more extensive external reporting formats and the webpage of the Company.

Restriction on use

Because our report will be prepared solely on behalf of and for the benefit of the principal, its contents may not be relied upon by any third party, and consequently, we shall not be liable for any third party claims. We agree to the publication of our assurance certificate and NFI report. However, publication may only be performed in its entirety and as a version has been certified by us.

General Conditions of Contract

Our responsibility and liability towards the Company and any third party is subject to paragraph 7 of the General Conditions of Contract for the Public Accounting Professions.

Vienna, 1st March 2023

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Peter Ertl Wirtschaftsprüfer (Austrian Chartered Accountant)	Mag. Georg Blazek Wirtschaftsprüfer (Austrian Chartered Accountant)

UN GLOBAL COMPACT COMMUNICATION ON PROGRESS (COP)

COMMUNICATION ON PROGRESS (COP)

As a signatory to the UN Global Compact, BAWAG Group is committed to complying with the ten principles focusing on labor rights, human rights, environmental protection and anti-corruption and, since signing the UN Global Compact Women's Empowerment Principles (WEP) in 2015, to complying with the seven WEP. This CSR Report 2022 is thus also a report in the sense of the annual "Communication on Progress" (COP). For each principle, examples have been given of how they have been and are being implemented at BAWAG Group.

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT AND EXAMPLES OF IMPLEMENTATION

The ten principles	Examples of implementation
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence. (COP 1)	p. 288, 339, 290 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct, Human Rights Policy
Principle 2: Businesses should make sure that they are not complicit in human rights abuses. (COP 2)	p. 288, 339, 290 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct, Human Rights Policy
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. (COP 3)	General/principles/guidelines: Freedom of association and the registration of trade unions are enshrined in law in our core markets. There is an ongoing exchange of information between management and the Works Council, and new works agreements are concluded regularly.
Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labor. (COP 4)	p. 288, 335, 290 General/principles/guidelines: Supplier Code of Conduct; the majority of our suppliers come from the DACH region. The topics of freedom of negotiation, forced labor, working hours and wages are part of the Supplier Code of Conduct item 3 "Respect for fundamental rights, health and safety of employees."
Principle 5: Businesses should uphold the effective abolition of child labor. (COP 5)	p. 288, 290 General/principles/guidelines: Supplier Code of Conduct
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation. (COP 6)	p. 295, 313, 317, 327 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct, recruiting policies, Women's Advancement Plan, Women's Mentoring Program
Principle 7: Businesses should support a precautionary approach to environmental challenges. (COP 7)	p. 335 et seq. Energy efficiency products and services
Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility. (COP 8)	p. 300, 335 Energy-efficient sites, paperless branches, digitalization of processes, expansion of online offerings, outbound services
Principle 9: Businesses should encourage the development and diffusion of environmentallyfriendly technologies. (COP 9)	p. 308 et seq Financing of sustainable projects
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. (COP 10)	p. 288, 290, 335 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct, anti-corruption and gift acceptance policy, conflict of interests policy. New entrants in Austria must successfully complete training on the prevention of money laundering. Employees must complete training on topics such as anti-corruption and fraud prevention.

THE SEVEN PRINCIPLES OF THE UN GLOBAL COMPACT WOMEN'S EMPOWERMENT PROGRAM AND EXAMPLES OF IMPLEMENTATION

WEP 7

The seven principles	Examples of implementation
Principle 1: Establish high-level corporate leadership for gender equality (WEP 1)	p. 316, 329 Women's Advancement Plan, Women's Mentoring Program, flexible working time models, focus topic in management programs
Principle 2: Treat all women and men fairly at work – respect and support human rights and nondiscrimination (WEP 2)	p. 318 Recruiting policy, Code of Conduct, flexible working time models, Supplier Code of Conduct, Women's Advancement Plan, part-time parental leave, dad month
Principle 3: Ensure the health, safety and well-being of all women and men workers (WEP 3)	p. 327, 328, 329 Work and family audit, information events for expectant parents, welcome back events for parents returning from parental leave, company day care centers, workplace health promotion, occupational health services
Principle 4: Promote education, training and professional development for women (WEP 4)	p. 329 Women's Advancement Plan, Women's Mentoring Program
Principle 5: Implement enterprise development, supply chain and marketing practices that empower women (WEP 5)	p. 316 Women's Award
Principle 6: Promote equality through community initiatives and advocacy (WEP 6)	p. 316 Women's Award, Women's Initiative
Principle 7: Measure and publicly report on progress to achieve gender equality (WEP 7)	p. 277, 315 Report on measures, objectives and target achievement as part of the annual CSR Report and the Communication on Progress (COP); proportion of female managers; ESG target related to Women's quota in SLT and SB

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	Net profit / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit per individual share (diluted) of the stock.
Average interest-bearing assets	Month-end interest-bearing assets / number of months	Average of month-end interest-bearing assets within the quarter or the year is used for calculating net interest margin and risk cost ratio (see KPIs below)
Basic earnings per share	(Net profit - AT1 coupon) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per individual share of the stock.
Book value per share	Common equity (excluding AT1 capital and dividends) / number of shares outstanding	Book value per share represents the total amount of common equity divided by the number of shares outstanding at the end of the period.
Common equity	Equity attributable to the owners of the parent	Common equity as presented in the consolidated financial statements
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored to ensure compliance with regulatory minimum requirements. Before any business opportunities are entered into, they are thoroughly assessed with regard to their impact on the CET1 ratio.
Core revenues	The total of net interest income and net fee and commission income	Core revenues consist of the line items net interest income and net fee and commission income and demonstrate the success of the bank in its core activities.
Cost-income ratio (CIR)	Operating expenses / operating income	The cost-income ratio shows the company's operating expenses in relation to its operating income. The ratio gives a clear view of operational efficiency. BAWAG Group uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
Customer loans	Customer loans measured at amortized cost	The book value of customer loans measured at amortized cost.
Dividend per share	Dividend payout / shares outstanding	The dividend per share expresses the distributed profit over the dividend eligible share. The base for the shares eligible for dividend is shown is the shares outstanding at period end plus the respective tranches of the LTIP from the following year.
Diluted earnings per share	(Net profit - AT1 coupon) / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per individual share (diluted) of the stock.
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks	Interest-bearing assets comprise the line items Financial assets and Assets at amortized cost excluding Assets at central banks
Leverage ratio	Tier 1 capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and expresses the relationship between the bank's Tier 1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Liquidity coverage ratio (LCR)	Liquid assets / net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax that is attributable to the owners of the parent in absolute amounts for the respective period as presented in the consolidated financial statements.
Non-performing loans (NPL) ratio	Non-performing loans / Exposure	The NPL ratio is a ratio to demonstrate the proportion of loans that have been classified as non-performing in relation to the entire credit risk exposure (on-balance and off-balance sheet receivables). The ratio reflects the quality of the portfolio and of the Group's credit risk management.
Non-performing loans (NPL) coverage ratio	Stage 3 incl. prudential filter and collateral / NPL exposure economic	The total of stage 3 impairments including prudential filter and collateral relative to the NPL exposure economic
Non-performing loans (NPL) cash coverage ratio	Stage 3 incl. prudential filter / NPL exposure economic	The total of stage 3 impairments including prudential filter relative to the NPL exposure economic
Off-balance business	CCF weighted off-balance business	Off-balance business refers to assets or liabilities that do not appear on the Group's balance sheet such as loan commitments and financial guarantees. The off-balance business in the risk report is weighted by a credit conversion factor (CCF).
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-provision profit	Operating income less operating expenses	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average diluted number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per individual share (diluted) of the stock.

Return on common equity (RoCE)	Net profit / average common equity excluding AT1 capital and dividends and dividend accruals	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related). Return on common equity and return on tangible common equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk-weighted assets and balance sheet size of the respective segment.
Return on tangible common equity (RoTCE)	Net profit / average tangible common equity excluding AT1 capital and dividends and dividend accruals	
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for a bank and includes both on-balance and off-balance positions. When calculating the amount, the bank can consider risk-mitigating elements (e.g. collateral) and has to derive regulatory risk weights for each position depending on the (external) credit rating of the counterparty or customer. Risk-weighted assets are used as the denominator for calculating the CET1 ratio (see above). "Fully loaded" refers to the full application of the CRR without any transitional rules.
Risk costs / interest-bearing assets; (risk cost ratio)	Provisions and loan loss provisions, impairment losses and operational risk (total risk costs) / average interest-bearing assets	This ratio is a measure for the quality of credit risk management and the loan portfolio itself. It provides a relative view of the risk costs for the period based on the average interest-bearing assets and allows benchmarking with other banks. Low risk costs may result from a high collateralization and/or a close monitoring of the credit rating of the customers. As a result, this implies that there are only few actual credit losses and little need for provisioning.
RWA density	Risk-weighted assets / total assets	The RWA density is a metric to obtain an "average risk weight" for a bank's balance sheet, i.e. the bank's total risk-weighted assets (see above) compared to the total assets. The ratio indicates the average risk weightings of the assets based on their regulatory assessment, which can be impacted by asset quality, the collateralization level or the applied models for assessing the risk weights.
Tangible book value per share	Tangible common equity (excluding AT1 capital and dividends) / number of shares outstanding	Tangible book value per share represents the total amount of common equity less intangible assets divided by the number of shares outstanding at the end of the period.
Tangible common equity	Common equity reduced by the carrying amount of intangible assets	Tangible common equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see below).
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other instruments (e.g. Additional Tier 1 and Tier 2 instruments) not falling within the strict Common Equity Tier 1 definition. The total capital ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. However, CET1 capital is of higher significance as it is also the base for prudential thresholds such as the SREP requirement. Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio.
Total capital ratio	Total capital / risk-weighted assets	
Value-at-risk (VaR)	Measure of risk of investments	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
AML	Anti-Money-Laundering
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
Cash flow hedge	A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital Requirements Regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance; in the applicable version.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Expected credit loss	IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
ILLAP	Internal Liquidity Adequacy Assessment Process; an internal procedure to ensure that a bank has robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk.
Impairments stage 1	Impairments (ECL) for assets without increase in credit risk since initial recognition.
Impairments stage 2	Impairments (ECL) with increase in risk since initial recognition but not credit-impaired.
Impairments stage 3	Impairments (provisions and reserves) for credit-impaired debt instruments.
Industry segmentation	Allocation to individual industries based on internal industry codes.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time.
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
SALCO	Strategic Asset Liability Committee; a bank committee with a full board representation that decides on the most relevant issues related to liquidity, capital and interests.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.
Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.

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