BAWAG GROUP AG
QUALITATIVE DISCLOSURE REPORT
ACCORDING TO
REGULATION (EU) NO. 575/2013 (“CRR”)

2023

CONTENTS

QUALITATIVE DISCLOSURE

Qualitative disclosure

LIST OF TABLES

LIST OF ABBREVIATIONS

ALM	Asset Liability Management
AML	Anti money laundering
AS	Application scoring
BCBS	Basel Committee on Banking Supervision
BP	Basis point
BPV	Basis point value
BS	Behavioral scoring
BWG	Bankwesengesetz (Austrian Banking Act)
CAC	Credit Approval Committee
CCF	Credit conversion factor
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHAID	Chi-square automatic interaction detectors
CHF	Swiss franc
CLO	Collateralized loan obligation
CMM	Capital Management Meeting
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation
CSA	Credit Support Annex
CET1	Common Equity Tier 1
EAD	Exposure at default
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected credit loss
EDP	Electronic data processing
EEA	European Economic Area
ERM	Enterprise Risk Meeting
ESG	Environmental, social and governance
EUR	Euro
EV	Economic value
EVE	Economic value of equity
FACE	Free Available Cash Equivalent
FMA	Financial Market Authority
FTP	Funds transfer pricing
FVPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
GBP	British pound
GDP	Gross domestic product
HQLA	High-quality liquid assets
IAS	International Accounting Standards
ICS	Internal control system
ICT	Information and communications technology
ICAAP	Internal Capital Adequacy Assessment Process
ID	Identity document
IFRS	International Financial Reporting Standards
IKS	Internal control system
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based approach

ISDA	International Swap and Derivatives Association
ISTC	ICAAP & Stress Test Committee
KRI	Key risk indicator
KSHK	Kreditsicherheitenkatalog (Credit Collateral Catalogue)
KSV	Kreditschutzverband
KYC	Know your customer
LAS	Liquidity adequacy statement
LCR	Liquidity coverage ratio
LGD	Loss given default
LTIP	Long-term incentive program
LTV	Loan-to-value
NFR & ESGC	Non-Financial Risk and Environment Social Governance Committee
NII	Net interest income
NPL	Non-performing loans
PD	Probability of default
PIP	Product implementation process
P&L	Profit and loss
PSC	Portfolio Steering Committee
PVBP	Present value of a basis point
RAP	Risk-adjusted pricing
RBC	Risk-bearing capacity
RCC	Risk and Credit Committee
RCSA	Risk control self-assessment
RM	Risk Modelling
RMBS	Residential mortgage-backed securities
ROC	Receiver operating characteristic
RWA	Risk-weighted assets
SA-CCR	Standardized approach for counterparty credit risk
S-ALCO	Strategic Asset and Liability Committee
SEQ	Sicherheitenerlösquotient (collateral return rate)
SICR	Significant increase in credit risk
SME	Small and medium-sized enterprises
S&P	Standard & Poor's
SSPE	Securitization Special Purpose Entity
TM	Treasury & Markets
TMA	Asset Liability Management
TPU	Temporary partial use
UGB	Unternehmensgesetzbuch (Austrian Commercial Code)
USD	US dollar
VaR	Value-at-risk
WAL	Weighted average life
WAM	Weighted average maturity
WGG	Wohnungsgemeinnützigkeitsgesetz (Austrian Non-profit Housing Act)

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Review of risk management systems according to Article 435 (1) point (e) CRR	Consolidated Annual Report IFRS 2023
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Information according to Article 41 FMA circular letter on accounting issues in connection with derivatives for controlling interest rates	BAWAG P.S.K. Annual Financial Report according to Section 124 Stock Exchange Act
Details on accounting and valuation methods according to Article 447 point (a) CRR	Consolidated Annual Report IFRS 2023

GENERAL PRINCIPLES

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

SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

Article 436 points (a), (b) sublit (i–iv) CRR

Owing to diverging regulations in the International Financial Reporting Standards ("IFRS") and the CRR, there are two different sets of consolidation guidelines, one for accounting and one for regulatory purposes, which also lead to two different scopes of consolidation. The following paragraphs present the scopes of consolidation and explain changes that occurred in 2023.

Consolidation for accounting purposes

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

The Group's share in the total assets and profit or loss of the subsidiary are the criteria for materiality. The proportionate total assets (higher than € 30 million) and profit or loss (higher than € 3 million) of the subsidiary are the criteria for inclusion.

The consolidated financial statements as of 31 December 2023 contained 40 fully consolidated companies and 2 companies that are accounted for using the equity method. The book value of associated equity interests including banks not consolidated at equity amounted to € 0 million as of 31 December 2023.

Controlled companies with a book value of € 16 million were not consolidated because of their negligible effect on the assets, financial and earnings position of the Group. Subsidiaries with a negligible effect on the assets, financial and earnings position of the Group are not included in the consolidation.

Changes in the scope of consolidation with no material impact on the consolidated financial statements

In 2023, one company was deconsolidated, as the requirements for consolidation in accordance with IFRS 10 were no longer met. One company was added to the scope of consolidation, due to materiality. Two newly established companies were included in the scope of consolidation and five companies were merged within the scope of consolidated entities.

Changes in the scope of consolidation with material impact on the consolidated financial statements

In the fourth quarter of 2023, two companies were included in the scope of consolidation due to the successful completion of the acquisition process for Idaho First Bank.

For further details, please refer to Note 48 List of consolidated subsidiaries in the BAWAG Group consolidated annual report 2023.

Consolidation for regulatory purposes

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

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

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

As of 31 December 2023, the scope of consolidation for regulatory purposes included 39 fully consolidated companies, 2 companies that were proportionally consolidated and 6 companies that were accounted for using the equity method.

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

Table 1: Divergent consolidation basis

IFRS CRR

	IFRS	CRR
BAWAG Leasing & fleet s.r.o. Prague	FVPL	F
Bonnie RE UK 1 B.V.	F	E
Fides Leasing GmbH	FVOCI	P
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H.	FVPL	F
HFE alpha Handels-GmbH	FVOCI	P
Kommunalleasing GmbH	FVOCI	F
Promontoria Holding 136 B.V.	F	E
PT Immobilienleasing GmbH	FVOCI	F
Dromalane Mill Limited	F	E
GEI Newry Ltd.	F	E

F .... Fully consolidated
P .... Proportionally consolidated
E .... Equity consolidated
FVOCI .. Equity instruments at fair value through other comprehensive income
FVPL .... Equity instruments at fair value through profit or loss

Significant subsidiaries in terms of Article 43 CRR were not deducted from CET1, as they did not exceed the threshold defined in Article 48 CRR. For significant positions in instruments of AT1 and supplementary capital, there is an obligation for deduction (according to point [d] of Article 56 and Article 66 CRR).

According to Article 36 (1) point (h), institutions shall deduct the applicable amount of direct, indirect and synthetic holdings by the institution of CET 1 instruments of financial sector entities where the institution does not have a significant investment in those entities.

Non-significant subsidiaries in terms of Article 46 CRR were not deducted, as they did not exceed the threshold defined in Article 46 CRR.[1)]

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

IMPEDIMENTS TO THE TRANSFER OF OWN FUNDS

Article 436 point (f) CRR

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

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

Article 436 point (g) CRR

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

USAGE OF ARTICLES 7 AND 9 CRR

Article 436 point (h) CRR

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

1) Referring to column "(a) Amounts as in published financial statements" of the template "Composition of regulatory own funds (EU CC1)" in the quantitative disclosure report according to Regulation (EU) No 575/2013 ("CRR")

RISK MANAGEMENT

GROUP-WIDE RISK MANAGEMENT

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

Risk management decisions are taken at various places within BAWAG Group on a daily basis. The systematic orientation of risk decisions at the company's targets requires the development of a common fundamental understanding concerning the risk-related issues, the specification of strategic and operational objectives in the individual business units as well as a comprehensive process of continuous risk management covering all risk areas.

The guidelines regarding the risk management are laid down in risk management documents. The Governance Policy describes the Group-wide governance arrangements and provides, inter alia, an overview of the risk governance framework and organizational structure of the risk management function. The risk strategy (derived from the specifications defined in the business strategy) defines the key risk management principles and core risk steering mechanisms for the Group's Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), risk management processes and risk appetite for the respective business year. In addition, it considers the Group's concentration risk features reflecting how the Group manages concentration risk and the risk catalogue including the respective risk definitions. The management of the individual risk types is part of specific risk policies and guidelines.

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

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

In addition, the Management Board is informed monthly about all risks within the Group in the Enterprise Risk Meeting (ERM). BAWAG Group Risk Report presented in ERM builds the informational basis in which various key risk indicators are reported, analyzed and their development commented on. Furthermore, any significant change in the risk situation must be immediately reported to the full Management Board. The external stakeholders are informed about the risk situation in the quarterly investor presentation and as well on a semi-annual basis (in the form of the annual report and half-year report). The reports and presentations are published on BAWAG Group's website.

As mentioned before, 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. By defining the risk strategy, the overall risk appetite serves as a constraint and represents, inter alia, the Group's intention to use a defined extent of the available internal capital for risks, taking into consideration regulatory and economic capital availability, the liquidity position and the profitability expectations. The risk strategy, coordinated by the Risk Modelling division, breaks the overall risk appetite down into more detailed metrics and limits. With regard to the ICAAP economic perspective, all the components are forecasted for the respective year, based on the capital planning, i.e. all the limit indications provided in the Risk Self-Assessment are already assessed in order to be consistent with the respective risk appetite targets and limits and are considered for the capital allocation.

The risk appetite statement provides a compact overview about BAWAG Group´s targets and limits set in terms of capital and liquidity metrics for the year 2023.

Table 2: Risk appetite statement

	YE 2023	Target	Limit
CET1 ratio 1)	13.24%	> 12.25%	> 9.70%
Tier 1 ratio 1)	15.35%	14%–14.5%	> 11.58%
Total capital ratio 1)	18.48%	16.5%–17.0%	> 14.08%
ICAAP limits utilization (PSF level 1 to level 4) 2)	48.8% 3)	< 90%	< 95%
LCR	214.69%	> 130%	> 110%
NSFR	141.08%	n.d.	> 110%
FACE	€ 8.3bn	> € 2.0bn	> € 1.5bn
Leverage ratio	5.22%	n.d.	> 3%
NPL ratio	1.0%	< 2.5%	< 3.0%
NPL total coverage ratio	76%	70%	60%
NFR indicator	0.88	n.d.	<1.15

1) Excluding Pillar 2 guidance buffer of 0.75% according to SREP.
2) In the context of ICAAP utilization, the defined 90% is not to be understood as a target, but as a warning level.
3) The figure reflects the internal capital utilization as of YE 23. The average limit utilization stands at 56.5% – all ICAAP limits are within the defined warning level as of YE 23.

Other important figures and information according to Article 435 (1) point (f) CRR can be found in the BAWAG Group´s annual report.

The BAWAG Group risk strategy and the Governance Policy are updated on an annual basis, approved by the full Management Board, approved by the Risk and Credit Committee, and recommended for approval to the Supervisory Board, and in a final step, approved by the Supervisory Board. The BAWAG Group Risk Report is presented to and discussed within the Risk and Credit Committee on a quarterly basis.

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

Regarding data management (especially risk data management), BAWAG Group pursues strategic objectives that are fully compliant with the regulatory requirements of BCBS239, as the efficiency of risk management is dependent on correct, complete and consistent data that is available on a timely basis. Therefore, BAWAG Group emphasizes the importance of strong data (quality) management and its continuous development and improvement.

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

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

Risk management organization as of 31.12.2023

The Chief Risk Officer (CRO) is responsible for the Risk Control function and for monitoring the risk management framework across the entire BAWAG Group.

BAWAG Group applies a Group-wide Fit and Proper Policy, which sets forth:

- the selection of Management Board (MB) members, Supervisory Board (SB) members and Key Function Holders (KFH);
- the assessment of suitability of MB, SB, KFH and representatives of the Works Council (“WC”);
- the criteria for the suitability assessment and the required documentation;
- the (annual and ad hoc) re-assessment.

The following risk divisions report directly to the Chief Risk Officer and, in the case of the Group Data Warehouse division, to both the Chief Risk Officer and the Chief Financial Officer:

- Commercial Risk Management
- Retail Risk Management
- Risk Modelling
- Validation
- Group Data Warehouse

The Group follows an integrated risk management approach which consistently and coherently covers all risk throughout the Group with full alignment of the risk management units of subsidiaries.

Operative credit risk for non-retail lending is managed within the BAWAG Group by Commercial Risk Management division. In daily business, credit risk is managed in cooperation between relationship and risk management based on the dual control principle and assigned authorities. Commercial Risk Management is also responsible for the non-retail sub- and non-performing portfolio, which is primarily managed by the Corporate Restructuring and Workout department.

The Retail Risk Management division is responsible for managing the entire credit risk life cycle (including real estate appraisals, fraud management and collections) for Retail & SME customers.

The Credit Risk Reporting department is responsible for the Group's and its subsidiaries' internal and external Credit Risk Portfolio reporting as agreed in the outsourcing contracts with the subsidiaries. Credit Risk Reporting also monthly calculates the Group's and its subsidiaries' risk costs and is responsible for the calculation of the regulatory Non-Performing Exposure (NPE) backstop requirement. The department reports to the head of Commercial Risk and to the head of Retail Risk Management (dual report).

Risk Modelling division is responsible for developing, implementing, maintaining risk models, techniques, risk management practices, analysis and reporting for credit, market and liquidity risk. The aim is to accurately measure all types of respective risks using a comprehensive set of quantitative analytics and risk metrics, embedding economic, regulatory and accounting considerations. Risk Modelling main tasks include the definition of the risk strategy, the Group-wide ICAAP, ILAAP and stress test framework and the coordination of the annual SREP. Furthermore, the division's tasks include the valuation of financial instruments and ensuring the integrity of data and market parameters used in this context.

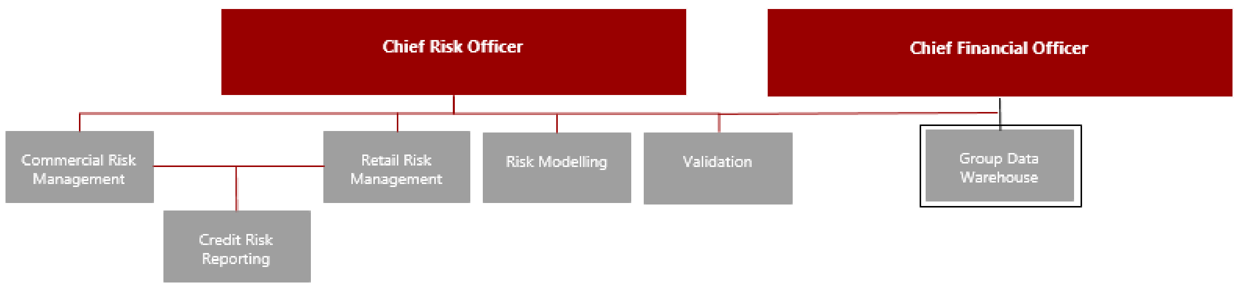
The Validation division is responsible for the model validation of the Group's internal risk models. It is an independent unit to ensure the adequate quality of the risk models and their performance. Regular validation is performed on at least an annual basis, and initial validation reports are prepared in the event of material model changes or new models. As part of the second line of defense, Validation takes on responsibility for data governance and the validation function. The head of Validation also acts as Data Governance Manager and reports in this function directly to the full Management Board. In addition, the Validation division is responsible for the operational risk management including the internal control system, the product introduction process, outsourcing management, and business continuity management. Furthermore, the Validation division is responsible for the coordination of the implementation and monitoring of ESG (environmental, social and governance) risks in all risk divisions and also oversees the risk due diligence and integration function, which covers the steering of M&A and integration-related projects for the risk function.

The Group Data Warehouse division is responsible for the overall operation, maintenance and further development of the data warehouse and performs the business support for all data warehouse-related topics for the Group. The focus is on the data content itself and the reporting/usage of the data.

Effective compliance and risk management are a crucial aspect of a bank's success. In addition to the conventional risk types, we appreciate that the management of non-financial risks as well as environmental, social and corporate responsibility are becoming increasingly important. Therefore, a Group-wide ESG framework was implemented within the Group-wide (risk) organization. BAWAG Group promotes a risk culture that takes into account climate-related and environmental risks. For this purpose, the Group has set up an appropriate governance structure to ensure that the identification, measurement, assessment, management and monitoring of ESG risks are fully integrated into the Group's risk management framework and are constantly 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

- Monthly ESG Steering Committee with participation of CFO and CRO to prioritize and discuss ongoing ESG-related 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



The above stated risk management divisions are directly subordinate to the Chief Risk Officer (CRO) and in the case of the Group Data Warehouse division, to both the Chief Risk Officer and the Chief Financial Officer, and periodically referred to the following committees at the Management Board level:

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

- approving the risk strategy and determining the risk appetite, and, if needed, giving recommendations to the Supervisory Board on changes and modifications
- approving and (if required) amending the BAWAG Group´s capital allocation in the ICAAP framework
- delegating competence for credit risk limit setting to the Portfolio Steering Committee (PSC) at the profit sub-segment level (level 3) and for specific countries and industries within each sub-segment (level 4)
- approving capital reallocation in level 3 and level 4 above € 40 million upon explicit recommendation by the PSC
- delegating competence for market risk limits for the Group to the S-ALCO
- reviewing and approving underwriting guidelines for all business units
- reviewing significant findings resulting from regulatory examination and initiating action for remedy
- discussing the monthly BAWAG Group Risk Report
- discussing the monthly Capital Report
- reviewing and approving the use of rating models, scorecards and cut-offs as well as the development of or changes to risk parameters
- reviewing and approving results or rating and scoring model validation and the resulting actions
- reviewing and approving or recommending (according to regulatory requirements) credit policies

Furthermore, the ERM has the following competences[1)] and authorities regarding stress testing whenever required, but at least semi-annually:

- Check of requirements concerning stress testing
- Identification of risk factors

1) Please note that the competences are operatively delegated to the ICAAP & Stress Test Committee or Macroeconomic Scenario Committee.

- Definition and review of stress test scenarios
- Interpretation of results of stress tests
- Definition of risk measures

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

Strategic Asset and Liability Management Committee (S-ALCO): This committee is the key decision-making body on all topics related to market and liquidity risk. The S-ALCO allocates the respective risk limits and serves as the escalation body for exceeding individual limits or regulatory requirements. Furthermore, all relevant Market and Liquidity Risk reports as well as ALM and Treasury reports are presented to the board via this committee.

Non-Financial Risk and ESG Committee (NFR & ESGC): This committee is chaired by the CRO and is responsible for all non-financial risks and topics related to environmental, social and governance with Management Board relevance. Among others (the following list is not exhaustive), this committee deals with Bank-wide NFR risk assessment (as part of the Group risk strategy), significant outcomes of sub-risk self-assessments including monitoring of utilization of operational risk sub-limits, process optimizations and discontinued processes which could imply reputational risk (as well as an increase in customer complaints) as well as changes in regulatory requirements (report to Regulatory Office, Legal or designated project leaders). Additionally, anti-money laundering/counter terrorist financings (AML/CTF), ethics, conduct and compliance themes are dealt with along with the regular Securities Compliance and AML/CTF reports. Further, regular reports in the NFR & ESGC include the Operational Risk Report, Outsourcing Report, Business Continuity Management Report, Information Security Report, Complaints Management Report, regular update of ESG topics, BWG Compliance Report, Securities Compliance etc.

Model Governance Committee (MGC) is responsible for the steering and monitoring of all risk models according to the model inventory including the overall design of the model governance framework. Furthermore, the MGC deals with the (pre-)approval and monitoring of the modeling and validation planning as well as the IRB roll-out plan. Moreover, model-related findings (both internal and external) are regularly presented and discussed in the Model Governance Committee. It also acts as the internal supervision body for ongoing IMIs and, together with the ERM, it approves (pre-)application packages.

Various committees are established at the Supervisory Board level. The most essential one from a risk perspective is the **Risk and Credit Committee (RCC)**, where also the BAWAG Group Risk Report is presented. There have been four RCC meetings held in 2023.

Under the current valid version of the Rules of Procedure for the Supervisory Board of BAWAG Group AG dated 5 December 2023, the RCC has the following responsibilities:

- approves the granting of loans and lines of credit as well as other forms of financing (including but not limited to credit derivatives and receivables represented by securities) to individual borrowers or groups of associated customers within the meaning of Article 392 CRR (exposures that equal 10% or more of the Bank's own funds)
- reports annually to the Supervisory Board on large exposures and investments
- decides on transactions with the Bank's affiliated parties within the meaning of Article 28 BWG
- approves material credit policies and advises the Management Board regarding general questions of credit and risk policy
- advises the Supervisory Board on the current and future risk appetite and risk strategy and monitors the implementation
- regularly monitors the effectiveness and efficiency of the risk management system and compliance with legal and regulatory requirements

- reviews whether prices of offered services and products fully take into account the business model and the risk strategy
- reviews whether incentives provided by the Bank's remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings

Number of directorships held

Disclosure of the number of management and supervisory functions held by BAWAG P.S.K. Management and Supervisory Board members pursuant to EBA/GL/2016/11 and Article 435 (2a) CRR as of 31 December 2023:

Table 3: Functions held by Management Board and Supervisory Board members

Name	Function at BAWAG P.S.K.	Number of Management Board functions	Number of Supervisory Board functions
Egbert Fleischer	Chairperson of Supervisory Board	0	3
Frederick Haddad	Member of Supervisory Board	7	5
Kim Fennebresque	Member of Supervisory Board	0	7
Adam Rosmarin	Member of Supervisory Board	1	4
Tamara Kapeller	Member of Supervisory Board	1	4
Gerrit Schneider	Member of Supervisory Board	1	2
Anas Abuzaakouk	Management Board, CEO	2	0
David O'Leary	Member of Management Board	2	0
Andrew Wise	Member of Management Board	4	1
Enver Sirucic	Member of Management Board	2	1
Sat Shah	Member of Management Board	2	0
Guido Jestädt	Member of Management Board	3	3

The ESG Committee (ESGC) deals with the review of the Group-wide ESG strategy and ESG targets and the 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 and management reporting on ESG risks) as well as the compliance with legal and regulatory requirements with regard to ESG topics. The ESG Committee held three meetings in 2023.

A quarterly ESG Committee on the Supervisory Board level has been established to ensure management of ESG-related matters and targets focusing on all dimensions (environmental, social and governance).

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND GROUP-WIDE STRESS TEST

Article 435 (1) point (a) CRR
Article 438 point (a) CRR
Article 439 point (a) CRR

The Internal Capital Adequacy Assessment Process (ICAAP) is part of the regulations known as Pillar II. According to the ICAAP Guide issued in November 2018 by the European Central Bank, BAWAG Group has implemented both the normative and economic perspectives for the Group steering.

The Risk Self-Assessment, which is conducted on an annual basis, provides an overview of BAWAG 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. Material and non-material risks are considered under the economic perspective, while the normative perspective encompasses Pillar I risks (credit risk, market risk, operational risk) and all other material risks (identified within the RSA process).[1)]

BAWAG Group's economic perspective compares the quantified risks, in the form of so-called economic risk covering both expected and unexpected losses, with the internal capital. The economic perspective is calculated on a monthly basis. The calculation and its components (on level 1 and 2) are discussed and reported monthly to the full Management Board in the ERM.

The following risk categories represent the relevant risk types within BAWAG Group that are quantified and compared with the available internal capital:

- **Credit risks**: Credit risk is quantified by applying the single risk factor model from Merton, which also underlies the core of the IRB formula, eliminating the additional regulatory parameters, and is populated with economic, not regulatory, point-in-time (pit) risk parameters, under the assumption of a given macroeconomic scenario. Furthermore, credit risk covers:

  - credit risk concentrations in connection with loans to major customers/to groups of affiliated customers
  - losses resulting mainly from granting loans in currencies different from those in which debtors receive regular income to reimburse their debts (FX lending credit risk)
  - the risk of the reduction in value of receivables due to the deterioration in the debtor's credit quality without a default having occurred yet (migration risk)
  - ESG risk stemming from credit risk

- **Market risks**: The quantification of interest rate risk in the banking book and credit spread risk are based on value-at-risk models. Other market risks, such as funds risk, foreign currency risk in the banking book or equity risk, are quantified with similar value-at-risk valuation models. These value-at-risk models are based on a historical full valuation approach and generalized hyperbolic distribution. In addition, market risk also covers ESG risk stemming from market risk.

- **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 FX basis spread risk. Liquidity risk includes as well the ESG risk stemming from liquidity risk.

- **Non-financial risk**: This category covers operational risk (including compliance risk, conduct risk, ICT risk, outsourcing and third-party risk) quantified using the Standardized Measurement Approach, as described in the Basel IV regulation. Furthermore, non-financial risk also covers ESG risk stemming from operational risk.

- **ESG risk**: ESG risk is quantified within the above mentioned main risk categories as credit risk, market risk, liquidity risk and operational risk, as all ESG risks can materialize directly or indirectly through one of the main risk categories. Due to diverse factors, the risks vary for different countries and industries. However, ESG risks are primarily long-term risks. The Group applies an expert model to derive the capital buffer for ESG risk within each individual risk category.

- **Other risks**: For the following risk types, economic capital has been quantified: participation risk, reputation risk, real estate risk, business risk and pension risk. For the other risks, a simplified VaR model has been implemented, taking

1) Furthermore, some non-material risk types are automatically taken into account in the normative perspective via P&L in terms of expected loss alone.

into account an average loss occurring in a one-year time horizon and the relative (compared to the average) variability in terms of how much the one-year loss tends to fluctuate over time by applying a confidence level of 99.9%.[1)]

The individual relevant risk types are subsequently aggregated to form the total risk of the Group and are set in relation to the internal capital. The aim of BAWAG Group's ICAAP steering is to ensure an adequate coverage of all risks at any time. This aim is supported via a specifically allocated capital buffer subject to allocation at the Management Board's discretion.

The scope of the economic perspective is intended to ensure that all economic risks of the Group are sufficiently covered by the Group's internal capital. All positions that are able to cover losses without transferring the cost to the Group's creditor, i.e. that are risk-bearing, are considered to be part of the internal capital. This mainly constitutes the positions contained in common equity, with a few deductions and add-ons on top.

Furthermore, a confidence level of 99.9% is applied for the calculations. The confidence level indicates the probability that potential losses do not exceed the quantified risk.

The normative perspective is also fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

In connection with the normative perspective, Pillar I risks (credit risk, market risk, operational risk) and material risks are quantified (and in terms of EL alone [via P&L] some non-material risk types), projected and subsequently considered in the respective capital (RWA) and P&L views. 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**: This refers to economic borrower groups that are sufficiently relevant in terms of capital consumption 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**: BAWAG Group has identified interest rate risk in the banking book (materialized as EVE and NII risk) and credit spread risk as the material market risks. Other market risk types include funds risk, equity risk as well as FX risk in the banking book. There is no proprietary trading and therefore no trading book. If applicable, all mentioned risks are also considered in the P&L, gains and losses and other comprehensive income. In addition, market risk also covers ESG risk stemming from market risk.

- **Operational risk:** The quantification of operational risk is based on the regulatory approach (Pillar I view) and is considered under the capital view (RWA). Operational risk losses are also accounted for in the P&L view.

The methodology and results of both ICAAP perspectives are discussed in the regular ICAAP & Stress Test Committee (ISTC) on a quarterly basis and reported to the ERM. The ERM oversees the assessment of the results and defines any corrective action for the risk appetite or business strategy, where necessary.

The link between the ICAAP perspectives and capital management is formally defined within the internal risk and capital governance.

1) For the quantification of the reputation risk, the Group follows a combined approach – in a first step, for the calculation of a potential risk on the asset side, the simplified VaR model is applied. 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 reputational risk, a corresponding weighting was carried out in order to take into account negative developments on both sides of the balance sheet and include realistic losses in the ICAAP framework.

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. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the normative perspective and stress test exercises, senior management reviews whether the stressed capital ratios remain above the recovery levels. In the event of breaches of the recovery levels, 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.

Stress test framework

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

Governance procedure has been defined and established for the performance of stress tests and the key decision-making body is the ICAAP & Stress Test Committee as well as the Macroeconomic Scenario Committee. The Portfolio Steering & ICAAP group in the Risk Modelling division is in charge of the coordination and guidance of each stress test exercise.

Stress test program

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

- ICAAP stress test (macroeconomic scenarios), performed on a quarterly basis
- reverse stress testing, performed once a year
- sensitivity analyses, performed on demand or at least once a year
- ad hoc analyses, performed on demand

ICAAP stress test

The ICAAP stress test is a macroeconomic stress test with general assumptions of a dynamic balance sheet in normative and static balance sheet in economic perspectives, without possible mitigation measures during the projection period. BAWAG Group's stress test exercise is based on macroeconomic scenarios (baseline and at least one adverse scenario including idiosyncratic shocks) covering a three-year horizon for normative and one-year horizon for economic perspectives starting from the reference date of the stress test exercise.

Macroeconomic scenario effects are transmitted to the portfolio via regression models (e.g. IFRS 9 models) as well as stress factors based on expert judgment (for unavailable historical data or for models with low explanatory power). Outcomes of the ICAAP stress test are expressed in terms of effects on capital ratios through both P&L and RWA for normative and total risk-bearing capacity utilization for economic perspective.

Reverse stress test

The reverse stress test is designed to identify a set of scenarios leading to a breach of warning or recovery thresholds of the CET1 ratio. The ICAAP stress test framework is utilized as the basis for the identification of such scenarios along with targeted sensitivity analyses.

ICAAP & Stress Test Committee

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

Meetings are held whenever required, but at least quarterly, and the scope of activity includes:

- ICAAP normative and economic perspective analyses and monitoring
- all cross-divisional stress tests or similar economic analyses.

Main responsibilities of ISTC are:

- Approval of the process guidelines and assumptions for each stress test or economic analysis
- Approval of the process guidelines and assumptions for ICAAP normative and economic perspective analysis
- Discussion and approval of the results of stress test exercises and ICAAP perspectives
- Definition of the recommended action/mitigation plan for ERM approval based on the ICAAP and stress test results

Macroeconomic Scenario Committee (MSC)

The main objective of the Macroeconomic Scenario Committee (MSC) is to identify appropriate scenarios for each stress test exercise and ICAAP perspectives.

The scope of activity includes:

- Identification and alignment of the baseline macroeconomic scenario
- Identification and design of the adverse macroeconomic scenarios, either from an external source or tailor-made for the BAWAG Group or for a specific BAWAG Group portfolio
- Identification and design of the idiosyncratic shocks (e.g., vulnerable large exposures, shock on house price index, retail overlays, etc)
- Approval of the identified scenarios and related assumptions

Moreover, the MSC is responsible for the review and approval of the three scenarios (optimistic, pessimistic and baseline) and related weights used in the calculation of the IFRS 9 expected credit loss.

Meetings are held whenever required, but at least quarterly.

Portfolio steering framework

BAWAG Group follows a detailed portfolio steering framework concept based on hierarchical capital allocation.

For the main risk categories, namely credit risk, market risk, liquidity risk, non-financial risk and the Management Board (MB) capital buffer for other risks, the defined limits are fixed. The risk quantification for the “other risks” is revalidated at least annually in conjunction with the strategic capital allocation process and further updated on as required basis.

The following four levels of capital allocation are considered:

- Level 1: Capital allocation to risk categories and the MB capital buffer
- Level 2: Capital allocation to business segments, migration and ESG risk (for credit risk) and to sub-categories (for market, liquidity and non-financial risk)

- Level 3: Capital allocation to business sub-segments (only for credit risk)
- Level 4: Capital allocation to countries for the total portfolio and to industries for the segment Corporates, Real Estate & Public Sector (only for credit risk).

Portfolio Steering Committee

This committee provides the central coordination of the portfolio steering processes at the Group level. The main objective is to ensure effective oversight and control over the capital allocation and capital utilization levels. Meetings of the PSC are held on a quarterly basis and the responsibilities of the PSC are as follows:

- Monitoring of credit risk capital allocation and capital utilization at all levels
- Approval of the standard Portfolio Steering Framework Report
- Assessment of the portfolio dynamics and the current utilization of the assigned limits
- Tactical capital allocation for the profit sub-segments (level 3) and for specific countries and industries (level 4) for the current year
- Assessment of the impact of relevant prospective credit decisions requiring capital reallocation
- Monitoring of the single-name concentrations for credit risk, including the large capital consumers
- Definition and evaluation of in-depth analyses regarding specific discussion topics related to the core responsibilities of the committee
- Definition of the recommended action/mitigation plan for ERM approval, where necessary

CAPITAL ALLOCATION AND LIMITATION AT TOTAL BANK LEVEL

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

The process for limitation and capital allocation runs parallel to planning and budgeting at least once a year and, if required, more often. Within the defined process, the established premises such as confidence level and risk appetite are reviewed and updated. Steering portfolios are defined for credit risk and are geared towards the customer segments or organizational responsibilities as well as countries and industries. The bank subsidiaries are included in the control portfolios. In addition, migration risk and ESG risk stemming from credit risk are covered within the credit risk category. Furthermore, specific sub-limits are defined for non-financial[1)], market[2)] and liquidity[3)] risks, and a respective capital buffer is assigned for risks within the risk category “other risks.”

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

- The Management Board sets forth the strategy in the annual medium-term plan
- Confidence level, holding period, capital buffer, steering units
- Planning and budgeting process and any changes in risk value/balance sheet items, taking an adequate liquidity position into account
- Existing limit-setting systems (e.g., in connection with market risks)

1) Including ESG risk stemming from operational risk.
2) Including ESG risk stemming from market risk.
3) Including ESG risk stemming from liquidity risk.

- Limitation for the steering units according to the quantification methods defined for the individual risk categories.

The capital allocation, as a major component of the Group-wide risk management and limitation of the risk categories, is approved by the full Management Board, approved by the Risk and Credit Committee and recommended for approval to the Supervisory Board, and in a final step, approved by the Supervisory Board.

CREDIT RISK

OBJECTIVES AND PRINCIPLES OF CREDIT RISK MANAGEMENT

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

Strategies and processes

Corporate customers

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

Credit is granted on the basis of the following considerations:

- All individual customers and customers in a customer group or a corporate group are rated at least annually.
- The analysis of creditworthiness is based on current business documents (the national accounts for sovereigns) including planning calculations of the company and other information to ensure a meaningful analysis for the rating and the decision.
- The assessment of a customer's creditworthiness and credit-bearing capacity is based on ratings that must systematically cover all information made available by the relationship manager. The final rating confirmation is handled by the responsible organizational risk division. The loan decision is taken solely according to the Competence and Power Regulation.
- BAWAG Group strives to collect suitable collateral to minimize the credit risk which is assessed using a standardized valuation based on the Group credit collateral catalogue. In the event of any net exposure, correspondingly higher collateral must be provided if the rating shows any signs of worsening.
- Financing for complex business models (e.g. leveraged finance) or in new countries or regions is based on a thorough analysis and description of the associated (credit) risks.
- The (credit) risk units must be involved with appropriate expert opinions, as set forth in the product implementation process. New business segments must also be compatible with the general treatment of credit risk in terms of classification and basic rules in order to ensure consistency.
- Any decision that could change the risk position in a customer relationship requires approval from the competent authorized person. Each application requires a positive front-office recommendation (from the customer advisor) before being submitted to the risk unit.
- If key ratios are defined in a credit relationship as auxiliary conditions (known as covenants), they must be stated in the credit application and approved. Compliance with the key ratios at the contractually fixed dates must be checked by the responsible risk unit.

Retail and small business customers

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

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

- Portfolio trends in terms of overdue/late payments (e.g. vintage and flow rate analyses)
- Portfolio trends in terms of risk class distribution and risk concentration
- Portfolio trends in terms of credit affordability and collateralization
- Portfolio trends with regards to defaulted loan facilities

- Portfolio trends in terms of incurred risk costs and losses
- Scorecard performance (approval rates and manual decision)
- Performance monitoring of fraud detection
- Portfolio distribution trends by products and channels
- Collection and workout performance

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

Independently of this process, risk-relevant data from standardized assessments between business managers and risk management are discussed and documented in monthly committee meetings. This process ensures a regular and standard flow of information while also making it possible to respond directly to changes in risk parameters and market conditions.

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

Structure and organization of relevant risk management functions

Credit risk is an integral part of many business activities and is controlled in the Commercial Risk Management and Retail Risk Management units. In daily business, credit risk is controlled by each business area in coordination with the respective credit risk division on the basis of the authority granted and applying the dual control principle. The authority is based on the CRO's respective delegation and approval.

The regulations governing the authority granted can be found in the Competence and Power Regulation.

Risk measurement systems (approved approaches)

Article 452 point (a) CRR

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

Portfolios in the IRB approach

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

- BAWAG P.S.K. AG

For the exposure class "exposures to corporates" (Article 147 [2] point [c] CRR), the approaches specified by the supervisory authority are used in the scope of the IRB approach for the risk parameter LGD and conversion factors. The risk weights pursuant to Article 147 (2) point (c) CRR apply for exposures from specialized lending.

In the exposure class "retail exposures" (Article 147 [2] point [d] CRR), parameters PD as well as LGD and conversion factors are based on the Group's own estimates.

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

Portfolios in the temporary standardized approach

These portfolios are currently in the temporary standardized approach:

- exposures to institutions pursuant to Article 147 (4) point (d) CRR
- retail exposures within start:bausparkasse AT
- retail exposures within the German portfolio of BAWAG P.S.K. AG and start:bausparkasse DE
- New retail products within the Austrian portfolio of BAWAG P.S.K. AG

Portfolios in the standardized approach

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

- exposures to central governments and central groups pursuant to Article 150 (1) point (a) CRR
- exposures to institutions pursuant to Article 150 (1) point (b) CRR
- exposures belonging to the classes of exposures to the Austrian federal government, provincial governments and public sector entities pursuant to Article 150 (1) point (d) CRR
- guarantees and counter-guarantees of central governments pursuant to Article 150 (1) point (j) CRR
- exposures to local and regional governments and public sector entities as well as legally recognized churches and religious communities falling into the exposure class “institutions” pursuant to Article 150 (1) point (a) CRR
- exposures within the Bank Group pursuant to Article 150 (1) point (e) CRR
- within the exposures to corporates, the immaterial business units of insurance companies, political parties, leasing companies, social housing, remaining Immobank portfolio, holdings and other financial companies pursuant to Article 150 (1) point (c) CRR
- participations whose credit obligations qualify for 0% risk weight under the standardized approach to risk weight in accordance with the provisions of Article 150 (1) point (g) CRR
- in accordance with Article 150 (1) point (c) CRR, for the exposures of the following subordinate institutions pursuant to Article 30 (1) BWG:
  - BAWAG P.S.K. Wohnbaubank AG
    - Health Coveo AG
    - Zahnärztekasse AG
    - Meritize Financial Inc.
  - easyleasing GmbH and BAWAG Leasing Holding GmbH and its leasing subsidiaries
  - start:bausparkasse AG, if not provided for in the temporary standardized approach
  - real estate companies of BAWAG Group if they provide ancillary services as subordinate institutions of the Bank Group
  - other smaller financial institutions, portfolios and providers of ancillary services

Furthermore, the regulatory capital requirements for the international retail mortgage portfolio are calculated using the standardized approach.

Reporting systems

The full Management Board is informed monthly about all risks in the Enterprise Risk Meeting (ERM) based on the comprehensive, monthly Group Risk Report. In addition, the full Management Board is informed immediately in the event of any material change in the risk situation.

Risk hedging and mitigation[1)]

Article 435 (1) point (d) CRR

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

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

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

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

1) See also “Credit risk mitigation techniques in the internal rating based approach.”

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

Strategies, processes and management

Article 435 (1) point (a) CRR

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

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

Article 435 (1) point (c) CRR

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

The credit risk divisions assess actual counterparties based on front-office requests. A limit system is employed to monitor this risk category and sets separate limits for the three asset classes of derivatives, money market and securities (product limit system). Risk Modelling (RM) is responsible for monitoring compliance with the set limits. The extent to which the limit is used is calculated methodically following the approach "positive market value plus add-on" utilizing credit risk mitigation techniques (refer to section "Credit risk mitigation").

This monitoring of limit use is done in real time and in the form of daily reports. The RM division reports to the front office on a daily basis and to the back office whenever limits are exceeded. The front office and back office then order countermeasures to be taken, subject to an escalation process coordinated by RM.

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

Risk hedging and mitigation

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

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

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

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

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

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

Correlation risks

Article 439 point (c) CRR

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

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

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

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

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

Rating downgrade and its impact on collateral

Article 439 point (d) CRR

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

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

Measures for exposure value

Article 439 point (f) CRR

Treasury business is focused on asset and liability management. Derivative financial transactions are conducted in the form of interest rate and currency swaps, forward exchange dealing, interest rate and foreign exchange options. BAWAG Group was not engaged in securities lending, commodity lending or in any margin lending transactions or long settlement transactions as of 31 December 2023.

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

BAWAG Group has opted to use the standardized approach for counterparty credit risk as defined in Article 274–280f CRR. The counterparty risk thus consists of the replacement cost (Article 275 CRR) plus the potential future exposure (Article 278 CRR) multiplied by the alpha factor of 1.4. A positive market value from the standpoint of BAWAG Group is an economic exposure in relation to the counterparty that would be lost in part or altogether in the event of default. The market value thus also represents the additional cost that would be necessary to place a comparable transaction. In calculating the internal exposure (limit add-on), BAWAG Group is guided by the procedure stipulated for determining capital adequacy.

Estimation of the scaling factor

Article 439 point (i) CRR

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

CREDIT RISK MITIGATION

Policies and processes for netting

Article 453 point (a) CRR

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

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

Types of collateral and collateral valuation and management

Article 453 points (b)–(c) CRR

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

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

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

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

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

Table 4: Types of collateral and collateral valuation and management

Type of collateral	Estimated values	Frequency of valuation
Financial collateral	Market value according to current GEOS price data, for example (with volatility adjustments taken into account)	Automatic daily valuation except for deposits at other banks
Residential real estate	Market value	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 performed at least annually on a model-supported basis for average Austrian residential properties, based 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 ("Marktschwankungskonzept") and individually checked for all higher-priced real estate properties at least every three years.
Commercial real estate	Market value	The value of commercial real estate is assessed by an independent expert at the current market value, at the maximum. Once a year, the risk units additionally check whether any material changes have occurred. A new valuation is ordered where warranted. A new valuation is conducted by the Real Estate Appraisal department at least every three years for loans > € 3 million.
Other physical collateral	Market value (not used for regulatory purposes)	At least once a year
Pledging or assignment of life insurance policies	Repurchase value (only conventional and funds-oriented life insurance policies where the surrender value cannot be reduced are used for regulatory purposes)	Automatic updating of repurchase value (through the insurance platform). For all other insurance companies when data is not transmitted via the platform: The customer must be obligated to submit the insurance confirmation annually.
Guarantees	Guaranteed amount (nominal value) less possible currency risks (volatility adjustment)	Monthly reconciliation of liability amount with the balance – depending on scope of liability
Co-obligations	Outstanding balance unless a restriction applies (not used for regulatory purposes)	Ongoing

Guarantors/counterparties for credit derivatives

Article 453 point (d) CRR

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

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

Collateral risk concentrations

Article 453 point (e) CRR

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

In order to cope with the potential concentration of the credit risk mitigation techniques, a large collateral providers list is provided within the Portfolio Steering Framework Report on a monthly basis. The list contains guarantors with a collateral market value over € 50 million and shows the internal rating, net exposure towards BAWAG Group and specific comments for each guarantor explaining the usage of the guarantee. The list is presented to the Portfolio Steering Committee on a monthly basis and is discussed with regard to guarantee effectiveness and potential countermeasures during the quarterly meeting.

VALUE ADJUSTMENTS AND RESERVES

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

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

Definition of “past due”

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

Definition of “forborne loans and forbearance measures”

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

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

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

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

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

Definition of "impaired"

In accordance with IFRS 9, the expected credit loss (ECL) is computed for all performing and loan loss provisions (LLP) for all non-performing financial assets that are recorded at amortized cost (AC) or at fair value through other comprehensive income (FVOCI), including lease receivables, loan commitments and financial guarantees and contract assets according to IFRS 15.

A key aspect of impairment estimation in accordance with IFRS 9 involves the allocation of financial assets into three stages. Stage 1 and 2 comprise assets that are deemed to be performing, while Stage 3 is designated for non-performing assets.

Additionally, financial assets that are purchased or originated as credit-impaired at the time of initial recognition (POCI) fall into a distinct and separate category. BAWAG Group examines the stage allocation of assets at each reporting date

Stage 1: Initial recognition
All financial instruments at initial recognition are in Stage 1 (with a few exceptions, e.g. POCI) along with those which do not show a significant increase in credit risk since initial recognition.

Stage 2: Significant increase in credit risk (SICR)
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. The SICR is generally conducted at the individual loan level. Industry impacts are assessed on a group basis and included in potential watchlist assessments.

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 and forward-looking 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: Credit impaired/ non-performing
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
- a reliable estimate of the loss amount can be made.

RATING SYSTEMS AND RATING PROCESSES

External ratings systems

Article 444 points (a)–(d) CRR

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

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

The Commission Implementing Regulation (EU) 2016/1799 is consulted with regard to the mapping of external ratings to the individual credit quality steps. The following table shows the relationship of the application of the ratings of ECAI for specific exposure classes.

Table 5: Mapping of external ratings to the individual credit quality steps

Exposure classes according to Article 112 CRR	Moody's	S&P	Fitch
Central governments or central banks	X		
Regional governments or local authorities	X		
Public sector entities	X		
Multilateral development banks	X		
International organizations	X		
Institutions	X		
Corporates	X		
Retail exposures			
Secured by mortgages on immovable property			
In default	X		
Associated with particularly high risk			
Covered bonds	X		
Securitization positions	X	X	X
Exposures to institutions and corporates with a short-term credit assessment			
Units or shares in collective investment undertakings	X		
Equity			
Other items			

The assignment of ratings is based on a daily data feed of the ECAI Moody's, which is processed in the IT systems of the Bank. This data is joined with the client or security master data automatically in order to ensure an up-to-date and – in terms of the calculation of own funds requirements – complete set of input data.

Relationship between internal and external ratings

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

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

Table 6: Rating notches and classes for all segments

	External rating agencies		
Rating notch	Moody's	S&P	Fitch
1.1	Aaa[1)]	AAA[1)]	AAA[1)]
1.2	Aaa[1)], Aa1	AAA[1)], AA+	AAA[1)], AA+
1.3	Aa2	AA	AA
2.1	Aa3	AA-	AA-
2.2	A1	A+	A+
2.3			
3.1	A2	A	A
3.2			
3.3	A3	A-	A-
4.1	Baa1	BBB+	BBB+
4.2	Baa2	BBB	BBB
4.3	Baa3	BBB-	BBB-
5.1	Ba1	BB+	BB+
5.2	Ba2	BB	BB
5.3	Ba3	BB-	BB-
5.4	B1	B+	B+
6.1	B2	B	B
6.2	B3		
6.3	Caa1	B-	B-
6.4	Caa2		
7	Caa3	CCC+, CCC, CCC-, CC, C	CCC, CC, C
8.1–8.8	Ca, C	R, SD, D	RD, D

1) Aaa and AAA correspond to class 1.1 for sovereigns and to class 1.2 for all other segments.

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

Control mechanism for rating systems

Article 452 point (c) and (d) CRR

During the life cycle of the rating system, different independent units within BAWAG Group are involved, based on the three lines of defense principle: The first line of defense is the CRCU (credit risk control unit according to Article 190 CRR), which is part of RM. The second line of defense is the Validation team (VA) according to Article 185 CRR and the third line of defense is Internal Audit with the function as outlined in Article 191 CRR. Each of the units report directly to the CRO without any further dependencies.

The CRCU is in charge of the initial model development as well as the review of estimates for the rating systems that take place either yearly, semi-annually or quarterly, driven by the materiality of the rating system. Based on the outcome of the review of estimates, different actions are taken, e.g. recalibration or new estimation of the risk parameters. The result of each review of estimates is presented to the Model Governance Committee and has to be approved accordingly.

The Validation unit is in charge of the initial model validation as well as the annual validation for all rating systems comprising the following activities:

Table 7: Description of the validation methods

Validation method	Description
Method 1	Verification of the documentation for the rating and scoring systems
Method 2	Verification of the quality of the database being used for validation
Method 3	Verification of the correct use of the rating and scoring systems as part of a use test
Method 4.1	Distribution analysis to identify clusters of customers in individual risk classes
Method 4.2	Comparison of internal ratings with external ratings (benchmarking)
Method 4.3	Identification of clustering of high exposures in individual risk classes
Method 4.4	Verification by the risk manager of the frequency of overrulings/overrides in the automatically generated rating classes
Method 4.5	Verification of clusters of defaults in individual rating or scoring systems
Method 4.6	Representativeness of portfolio and risk factors
Method 5.1	Testing of rating and scoring systems as regards calibration by comparing the mean forecast PD and the mean observed default rate
Method 5.2	Testing of individual risk classes as regards calibration by comparing the mean forecast PD and the mean observed default rate using binomial distribution tests
Method 6	Testing of the discriminatory power of the rating and scoring systems using ROC and Gini coefficient
Method 7.1	Stability analyses of discriminatory power over time, risk weights and homogeneity
Method 7.2	Analyses of migration matrices

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

Besides the internal quality assurance in the course of the model development and the validation, Internal Audit conducts assessments in the event of material model changes.

Reporting related to credit risk models

Article 452 point (e)
The reporting for the credit risk models follows the three lines of defense as well: The CRCU has the yearly, semi-annual or quarterly monitoring reports (review of estimates), which are presented to the Model Governance Committee. These are the main topics of this reporting:

- Representativity of the application portfolio
- Model performance (e.g. discriminatory power)
- Calibration (realized versus estimated risk parameters)

- The Validation unit as the second line of defence provides the yearly validation report for all credit risk models. Among others, the following categories are prepared regularly as part of standardized monitoring reports:
    - Distribution of the customers and exposures across the Basel segments according to CRR, an internal subdivision of the exposure classes
    - Distribution of the risk classes across the Basel segments according to CRR
    - Risk classes based on overruling

- Discriminatory power of the rating and scoring system
- Analyses regarding calibration

If defined limits are exceeded or fallen short of, the causes are analyzed in detail and countermeasures are initiated as needed.

Internal Audit reports on an ad hoc basis, e.g. for material model changes, and tracks the regulatory findings, but has no regular reports regarding the credit risk models.

Internal rating systems

Article 452 point (f)

Probability of default

The probability of default (PD) is the estimated probability that a borrower will default within the next 12 months. The occurrence of one of the events listed below is deemed as a default event throughout the Group. The definition of default corresponds to the regulatory reference definition ("90 days past due" and "unlikely to pay") as set forth in Article 178 CRR. The new definition of default based on EBA/GL/2016/07 including the lower materiality thresholds of Regulation (EU) 2018/1845 was introduced on 1 July 2020.

Table 8: Description of the reference definitions for default

Reference definition for default	Description
90 days past due	More than 1% of the Group-wide on-balance exposure is more than 90 days past due
Unlikely to pay (UTP)	Restructuring (e.g. non-accrued status, distressed restructuring etc.)
	Specific credit risk adjustments (e.g. manual loan loss provisions, write-offs etc.)
	Soft and hard UTP triggers (e.g. license withdrawn, repayment gap etc.)
	Legal proceedings (filing for bankruptcy, bankruptcies etc.)

At present, BAWAG Group mainly uses statistical PD estimation models. The models are chosen such that they provide a high discriminatory power, business interpretability and stability over time. The base for estimation is mostly internal data collected within the Group data warehouse, which is regularly checked for representativeness with respect to the application sample, particularly at the stage of model development and calibration. Representativeness analysis enables the definition of the calibration segments and the calibration sample length, as well as early identification of deficiencies specified within EBA/GL/2017/16 and changes in risk appetite and lending standards. The models are then calibrated towards the long-term average default rates as per EBA/GL/2017/16, using mostly internal data and employing the maximum available default history. Finally, margins of conservatism covering uncertainty from the identified deficiencies and estimation errors are applied. A recalibration of the models is performed regularly, and performance of the models is carefully monitored on a regular basis. The estimation and calibration process are executed considering EBA/GL/2017/16. Regulatory floors are reflected in the sense of the PD of the best risk class a customer can obtain. The PD estimation is validated annually using qualitative and quantitative methods. The qualitative methods focus on data quality, utilization and on the quality of the documentation for the estimation process. Discriminatory power is measured in the quantitative area. Furthermore, a binomial test is used for calibration and to check the discrepancy between the forecast PD and the rate of default actually observed. The stability of the estimation models is also observed over extended periods of time.

Table 9: Overview of rating and scoring systems

	Rating system	Model type	BAWAG P.S.K.	Other Institutions
Corporates	Corporate Standard	log. regression	x	x
	Cash Based Accounting	Expert model	x	x
	Commercial Real Estate	log. regression	x	x
	Specialized Lending	Slotting approach	x	x
Retail	Private individuals	log. regression	x	x
	SME	log. regression	x	x

Corporate Standard

This area of application pertains to companies that use accrual accounting and that cannot be assigned a special rating procedure because of their business purpose (e.g. real estate companies). These companies must also have a group exposure under Basel II equal to or greater than € 1 million or consolidated operating revenue equal to or greater than € 50 million. The customer's risk class is calculated from a combination of a financial rating from a statistically based balance sheet rating and an assessment of qualitative characteristics (e.g. management, organization, market/sector, general factors and account management). The risk analyst can overrule[1)] or override[2)] a confirmed customer rating if needed. The major reasons for this step are downgrades based on an outdated balance sheet, or warning signals (e.g. outstanding taxes, warning list entries) and consideration of a group influence, ratings of a rating sponsor (e.g. support from dominant shareholders, personal partner with unlimited liability) or, under certain restricting circumstances, consideration of external ratings. In 2021, the Corporate Standard model was redeveloped, with the regulatory approval being granted in July 2023.

The performance of the model is assessed on a regular basis, and differences between the observed and actual default rates reveal no underestimation of the observed default rates.

Cash Based Accounting

This expert model covers Austrian counterparties with cash-based accounting in the exposure class "corporates." This model received the initial approval in 2013. The performance of the model is assessed on a regular basis, and differences between the observed and actual default rates reveal no underestimation of the observed default rates.

Commercial Real Estate

This area of application covers companies with accrual accounting that can be designated as real estate agents/investors based on their business activities. The rating system is generally structured like the Corporate Standard process. It combines hard-fact and soft-fact ratings, which can be altered by overruling/override. The model was redeveloped and reviewed by the regulator in 2021. An approval from the ECB was received in 2023. The performance of the model is assessed on a regular basis, and differences between the observed and actual default rates reveal no underestimation of the observed default rates. The regulatory floor for the minimum PD is 0.03%.

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

Specialized Lending

According to the CRR, specialized lending refers to exposures created in relation to companies specially set up to finance or operate real properties that comply with the criteria set down in Article 147 (8) points (a) to (c). For specialized lending, BAWAG Group applies the regulatory slotting approach. The model is developed in accordance with the " EBA Final RTS on specialized lending exposures (EBA-2016-RTS-02)" and the respective Commission Delegated Regulation (EU) 2021/598. ECB approval was granted in July 2023.

Private Individuals

Private individuals are defined as natural persons whose income does not derive primarily from self-employment. The main exposure categories in the retail customer segment are private loans, overdrafts on salary accounts and credit card products. The rating model takes into account customer characteristics (e.g. age, occupation), application and product characteristics (e.g. amount of credit extended) and external data on any incidences of payment problems. Loans can be approved only for customers up to certain risk class or score thresholds. Beyond the determination of risk class, scoring gives a recommendation on what decision to make (accept/green; reject for now/yellow; reject/red) based on the regulations specifying the essential criteria in the credit extension guidelines (total credit exposure, affordability, security, etc). These recommendations are binding for the authorized employees in sales. Only authorized staff in the risk centers can overrule the categories "reject for now" and "reject." Another application scoring procedure can be carried out during the term of any product where warranted, particularly if essential new information has come up that indicates a (positive or negative) change in the customer's current risk class. Differences between the observed and actual default rates are driven by the fact that predicted PD is based on the historical information. Recurring calibrations or model adjustments are aimed at rectifying the gap. The minimum attainable default probability that a customer can be assigned is the regulatory floor of 0.03%.

Small and Medium-sized Enterprises

The Retail category includes all enterprises with operating revenues of less than € 50 million and an exposure (for the entire customer group) of less than € 1 million in BAWAG Group. If these enterprises cannot be assigned to a special rating based on business purposes (see "Rating systems and processes at companies and institutions"), the scoring procedure for small and medium-sized enterprises is applied. In the Retail/Small Business segment, further sub-segments geared towards the type of accounting (cash-based, lump-sum and accrual accounting) and the operating revenues are formed to take into account the different information bases and the procedural requirements. The exposures consist mainly of overdrafts in payment accounts as well as operating loans and medium- and longer-term investment loans. Differences between the observed and actual default rates are driven by the fact that predicted PD is based on the historical information. Recurring calibrations or model adjustments are aimed at rectifying the gap. The minimum attainable default probability that a customer can be assigned is the regulatory floor of 0.03%.

Loss given default

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

Internal Bank estimates are only carried out for the retail portfolio (Private Individuals and Small Business). The LGD estimate is based on a two-step process. First, the collateral return rate (SEQ) is determined per collateral pool. Then the outstanding exposure less collateral return (EAD*) is determined. For the non-collateralized portion of the exposure, a non-collateralized LGD is estimated using a CHAID-class decision-tree process applying criteria with a high degree of discriminatory power. In a final step, the two components SEQ and non-collateralized LGD are then merged to arrive at the final estimated LGD. The generated values of the individual pools are calibrated at a conservative level using an upward surcharge based on the standard deviation and the number of data sets and taking into account any downturn effects that may be observed. All data available since 2008 were used for model development as long as the data were of sufficient quality and were sufficiently representative. The exposure weighted average LGD for all retail exposures secured by residential or commercial property is scaled such that it is not below 10% or 15%, respectively. Differences between the observed and actual loss rates are driven by the fact that the LGD is based on the long-term historical information. Recurring calibrations or model adjustments are aimed at rectifying the gap.

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

Credit conversion factor

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

Internal Bank estimates are only carried out for the retail portfolio (Private Individuals and Small Business). The CCF estimate is based on a CART decision-tree process. The generated values of the individual pools are calibrated at a conservative level using margins of conservatism for any uncertainties or deficiencies and taking into account any downturn effects that may be observed. All data available since 2008 were used for model development as long as the data were of sufficient quality and were sufficiently representative.

The annual validation of the estimated CCF comprises analyses of the deviation between observed values and estimated values, plausibility checks and descriptive statistics and tests for the individual CCF pools regarding stability, heterogeneity and homogeneity, as well as an analysis of downturn effects.

MARKET RISK

OBJECTIVES AND PRINCIPLES OF THE MANAGEMENT OF MARKET RISK

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

Strategies and processes

BAWAG Group has a clearly defined market risk appetite framework. The Group's market risk strategy has a focus on balance sheet hedging and mitigating earnings (volatility of net interest income [NII]), gains and losses, and other comprehensive income) and economic risks arising from market risk factors. Consequently, the Bank has decided to discontinue all trading book activities. This risk appetite is reflected in the Bank's limit framework, which ensures the management of the respective risk categories within narrow limits.

The quantification and monitoring of market risks comprise interest rate risk, volatility risk, credit spread risk, funds risk and foreign currency exchange risk. The measurement and monitoring of risk positions is provided by applying sensitivity analyses as well as the analysis of the associated loss potential derived from periodic stress tests. The steering of risks is achieved through setting limits for the individual types of risk, which are approved by the Management Board.

The objectives of the limit system are defined as follows:

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

Structure and organization of relevant risk management functions

The Risk Modelling (RM) division reports directly to the CRO. The division is responsible for the steering, measurement and controlling of liquidity and market risk of BAWAG Group. The most important responsibilities concern the monitoring of market risk, in particular interest rate risk, volatility risk, credit spread risk and foreign currency exchange risk. This is achieved through the limitation of the individual types of risk, and in this regard, it is RM's responsibility to set such limits as approved by the Management Board within the ICAAP.

Additionally, the counterparty credit risk monitoring of treasury positions is located within the area of market risk.

The relevant committee with regard to market risk is the Strategic Asset Liability Committee (S-ALCO). Topics in the context of total risk including ICAAP are handled within the ERM.

Market risk limit framework

Market risks are limited at least at two levels at a minimum, and where regulatory limits apply, at three levels:

- by ICAAP limits within the context of overall Bank risk management (e.g. VaR)
- operational limits for the management of the specific risk category (e.g. present value of basis point [PVBP] limit, Greeks limits, volume limits, etc including limits by accounting method and time band).
- regulatory limits (e.g. for interest rate risk: EVE SOT of 15% and NII SOT of 5%)

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

In addition, a limit framework has been set up to capture the impact of interest rate changes on the Bank's future earnings capacity. The net interest income risk limit handles the impact on the future earnings capacity/NII in a stress scenario over the horizon of 12 months.

In addition to and as part of the ICAAP, both historical VaR and various stress tests are reported for the economic and normative ICAAP perspective, respectively.

Reporting systems

The market risk reporting comprises internal and external risk reporting. Limit compliance is checked daily for FX risk and interest rate risk BPV and reported to the Management Board. Compliance with the basis point value limits (enterprise and maturity range limits as well as limits relevant to OCI and P&L for interest rate risk and credit spread risk) is monitored monthly at the institution and Group level.

Furthermore, stress tests, reverse stress tests and scenario analyses are conducted. Intended future measures are included in all reports as needed. A net-interest-income simulation (NII simulation) with associated stress tests is performed monthly.

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

External reporting comprises the reporting to the Joint Supervisory Team.

Risk hedging and mitigation

Market risks are steered within the applicable limit framework.

To manage market risks within the economic and earnings perspective, the TM division develops hedging and positioning strategies.

To steer the volatility of gains and losses and other comprehensive income, BAWAG Group applies hedge accounting pursuant to IAS 39. The following hedge accounting methods are currently used:

- Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities.
- Portfolio fair value hedge ("EU carve-out"): application to sub-portfolios of sight deposits.
- Cash flow hedge accounting: hedging of FX risks of future spread income and cross-currency basis risks.
- Net investment hedge accounting: hedging FX risk arising from participations in foreign currency.

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values.

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

INTERNAL MODELS FOR LIMITATION OF MARKET RISK

Article 455 point (a) (i–iv) CRR

BAWAG Group does not make use of an internal model to calculate its own funds requirements for market risk.

INTEREST RATE RISK FROM POSITIONS NOT HELD IN THE TRADING BOOK

Article 435 (1) points (a)–(d) CRR
Article 448 point (a) CRR

Measurement of interest rate risk

The methods currently used for the banking book include sensitivity analysis, stress tests and value-at-risk as well as volume limits for open positions.

The interest rate risk in the banking book is measured at least monthly. An analysis of interest rate risk is conducted for subsidiary banks and other financial institutions that are relevant in terms of interest rate risk.

There are two complementary methods of measuring the potential impact of IRRBB:

- Present value perspective (changes in economic value – EV, or economic value of equity – EVE when measuring the change in value relative to equity): Account is taken of risks resulting from changes in the market value of transactions accompanied by shifts in interest rate curves. Changed interest rate curves are simulated for the main currencies in the monthly stress tests.

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

- Income perspective: Risks that may cause an unexpected decline in the net interest income (interest margin risk, impact of possible interest rate scenarios).

Present value perspective

Economic value of equity (EVE): The change in EVE (ΔEVE) represents a risk measure, which is the present value change in EVE, i.e. in the net present value of the balance sheet excluding equity under a particular interest rate stress scenario.

The PVBP is the difference between the net present value (NPV) based on the yield curve shifted by 1bp and the NPV based on the current yield curve. The NPV is calculated based on a discounted cash flow full valuation method. The NPV is obtained either by discounting the expected cash flows of the contract (marked to model) or using a given market value observation of the contract (marked to market).

The following table depicts BAWAG Group's interest rate risk sensitivities as of 31 December 2023 on the basis of the PVBP concept:

Table 10: Interest rate sensitivities

31.12.2023 in € thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	-351	244	183	315	-31	-229	131
USD	-8	-5	-19	-7	43	-23	-19
CHF	-31	6	5	-1	-4	-2	-27
GBP	-5	2	-1	1	1	0	-2
Other currencies	2	-11	-21	0	-2	0	-32
Total	-393	236	147	308	7	-254	51

For the VaR (value-at-risk) within ICAAP, the Group applies a historical simulation combined with a general hyperbolic distribution. Based on the market data history, monthly loss scenarios are defined. The time intervals are not overlapping to ensure independent scenarios. To prevent the underestimation of heavy tails, special cases (including the most general one) of a flexible family of distributions – the generalized hyperbolic (ghyp) distributions – are calibrated to the defined loss scenarios. A one-year VaR is determined for each and finally, a robust mean is calculated to minimize the model risk. The ghyp family includes several well-known distributions (normal distribution, Student's *t*-distribution, normal inverse gauss distribution).

Income perspective

Net interest income risk is quantified through the simulation of future interest income and expense under various scenarios. The analysis incorporates all of the Group's NII-relevant assets, liabilities and off-balance instruments. On-balance-sheet contracts with maturities scheduled within the simulation period are replaced upon runoff (constant balance sheet assumption) with new business margins.

The market rate scenarios applied cover parallel and non-parallel upward and downward shifts of relevant yield curves, thereby incorporating limits to the degree to which rates are allowed to drop below zero.

Furthermore, loan prepayment rates (which govern the early redemption of a certain portion of the loans under a given market rate scenario) are also modeled along with alternate new volume, rate and margin scenarios.

Hedging strategies, for example the hedging of FX credit spread risk and non-maturity deposits, are generally assumed to be continued through the end of the simulation horizon.

Variation in earnings and economic value

Based on the internal interest rate risk measurement model, BAWAG Group measures the fluctuations in both EVE and NII driven by the interest rate movements.

Economic value of equity is a cash flow calculation that subtracts the present value of the expected cash flows on liabilities from the present value of all expected assets (including derivatives).

For BAWAG Group, the following EVE calculation assumptions apply:

• Positions included: The calculation of EVE includes all cash flows from all interest rate-sensitive assets, liabilities and off-balance-sheet items in the banking book. Other non-interest-bearing positions are recognized at their book values. Equity is not included.

• Cash flows: The method used is a DCF (discounted cash flow) method. Both principal and interest rate cash flows are rolled out according to the contractual specifics and, if applicable, these cash flows are adjusted by customer behavior assumptions, mainly prepayment assumptions. Deals with undefined maturity profiles are modeled according to the respective models, which reflect both the repricing behavior as well as the liquidity aspects (for ALM models, please see below).

• Time horizon: EVE measures reflect changes in value relative to equity over the remaining life of the balance sheet, i.e. until all positions have run off.

• Balance sheet assumption: ΔEVE is computed with the assumption of a run-off balance sheet, where existing banking book positions amortize and are not replaced by any new business.

The following table shows BAWAG Group's variation in EVE in the event of a +/-200bp parallel rate shock as well as six upward and downward rate shocks (in line with Article 1, lit. 1, [a]–[f] of EBA/RTS/2022/10 as well as EBA/GL/2022/14 Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities), broken down by currency. In line with Article 4 (l) of EBA/RTS/2022/10, all positive changes to EVE per currency are weighted by a factor of 50%.

The decrease in EVE sensitivity compared to the previous year is driven by the strategic position not to hedge the interest rate risk resulting from the NMD replication model change at once but execute the hedges throughout a longer time horizon in order to reduce the risk of market timing (PVBP as of December 2023 of EUR plus 51k compared to the PVBP of EUR minus 494k as of December 2022). Accordingly, the table below shows significantly weaker negative EVE impacts for higher rate shifts, following the interest rate risk strategy defined and executed by the S-ALCO in December 2023.

In addition, since January 2023 BAWAG group applies methodology based on the risk-free rate at origination of each instrument (excluding commercial margins and other spread components) within the risk management and measurement approach for interest rate risk in the non-trading book.

Table 11: Instantaneous change of the economic value of equity

31.12.2023 in € million	+200bp	(200bp)	Parallel shock up	Parallel shock down	Steepener shock	Flattener shock	Short rates shock up	Short rates shock down
Total	**-146**	**-53**	**-145**	**-55**	**-87**	**-9**	**-88**	**46**
EUR	-131	-55	-132	-54	-87	0	-82	41
USD	-7	-5	-7	-5	-1	-6	0	1
GBP	0	0	0	0	1	-1	-1	1
CHF	-4	5	-2	2	1	-2	-3	2
OFX	-4	2	-4	2	-1	0	-2	1

Net interest income (NII) is a common earnings-based measure calculated as the difference between revenues generated by interest-bearing assets and the cost of servicing interest-bearing liabilities. It focuses on changes in future profitability. ΔNII, the change in NII, is the projected change in NII over a particular time horizon resulting from a sudden or gradual interest rate movement. To the extent that future earnings will impact future equity levels, ΔNII and ΔEVE are aligned, although estimated EVE changes also include adjustments to net income which would occur beyond the horizon applied to earnings measures.

For BAWAG Group, the following NII calculation assumptions apply:

• Positions included: NII includes all cash flows from all assets, liabilities and off-balance-sheet items in the Group, including all non-interest-bearing positions, which are assigned an interest rate of 0%. Cash flow balancing is conducted using predefined pricing assumptions.

• Cash flows: The assumptions from behavioral models (prepayments, early terminations and repricing of NMD) as well as their adjustment to interest rate level, if relevant, are applied consistently for both EVE and NII risk (scenario) analyses.

• Margins: Cash flows include commercial margins and other spread components.

• Time horizon: BAWAG Group generally simulates NII over a one-year (regulatory purposes) and a three-year (ICAAP) horizon. The latter is consistent with the planning process. Thus, NII risk can be viewed as the short- to medium-term vulnerability of the Bank's NII to IRR.

• Balance sheet assumption: For regulatory purposes, BAWAG Group uses a constant balance sheet approach, under which matured existing business is replaced by new business production. For internal stress testing (ICAAP), new business assumptions in line with BAWAG Group's planning process as well as stressed volumes are applied.

The following table shows BAWAG Group's variation in NII in the event of an upward and downward parallel rate shock (in line with Article 1, lit. 2, [a]–[b] 114 of EBA/RTS/2022/10 as well as EBA/GL/2022/14 Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities), broken down by currency. In line with Article 5 (b) of EBA/RTS/2022/10, all positive changes to NII per currency are weighted by a factor of 50%.

Table 12: Change in the forecasted net interest income within 12 months

31.12.2023 in € million	Parallel up	Parallel down
Total	18	-142
EUR	20	-135
USD	-2	1
GBP	2	-3
CHF	-6	3
Other FX	4	-8

Assumptions regarding non-maturity positions

For positions without a defined interest rate (non-maturity positions), BAWAG Group applies replication assumptions based on mathematical models. These models, in turn, are based on a holistic view of interest rate and liquidity risk and consist of the following components:

- Future-oriented interest rate scenarios derived based on a forward-looking two-factor Hull-White model.
- Client rate prediction based on historical data. Client rates are expressed as functions of market interest rates – the model applies return-based regression models. The functions are then used to estimate client rates for each interest rate scenario.
- Volume prediction: Volume trends are developed according to plan figures; seasonal fluctuations are captured by time series models.
- Optimization: The model defines the optimal replication portfolio satisfying a set of liquidity, regulatory and internally defined constraints.

The duration of the replication model is constrained in accordance with regulatory guidelines for each product group. Furthermore, the Bank has defined a set of different model constraints in order to reflect different types of risk appetite (conservative, moderate, liberal) and mitigate inherent model risks.

Retail non-maturity deposits (NMDs) of BAWAG Group, denominated in EUR, are generally classified into transactional and non-transactional portfolios or further sub-portfolios depending on the product characteristics. The transactional accounts have a duration ranging from 3.14 to 4.15 years, depending on the product's characteristics, due to stable long-term core deposits. The duration of non-transactional accounts, predominantly savings products, is 2.30 years.

In addition, through the acquisition of Idaho First Bank, BAWAG Group also manages minor volumes in USD retail NMDs, which show an average duration of 3.57 years.

Commercial NMDs of BAWAG Group have a duration ranging from 1.08 to 1.14 years.

The interest rate replication model is reviewed and validated once a year. Back-testing and the adjustment of replication assumptions are carried out prior to the planning process.

Assessment of call rights and prepayment behavior

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

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

Two types of prepayment models are currently used: on the one hand, portfolio prepayment models which assign a single prepayment rate for an entire loan portfolio. This approach is applied to loan portfolios with a low interest-rate-risk profile (e.g. portfolios with low volume or low duration). A simple average of past observed prepayment rates (expressed in CPR [conditional prepayment rate]) is used as an estimate of future prepayment rates. On the other hand, more sophisticated loan prepayment models are used which assign a prepayment rate to each loan individually based on certain loan characteristics (e.g. loan age, remaining time to maturity, difference between mortgage rate and current refinancing rate etc).

The CPR of retail loans ranges between 3.9% p.a. and 16.2% p.a. depending on the market and characteristics of the product. Commercial loans prepay with a CPR ranging between 11.7% p.a. and 42.3% p.a.

In addition to prepayment models relevant for the assets, a model was developed for savings deposits to derive the early termination rate (ETR) from the ten-year data history. The ETR amounts to 2.5% p.a.

Scenario analysis

Both static and dynamic analyses are currently carried out for BAWAG Group (internal risk report). Interest rate gaps, key rate durations, average interest rates and changes in market values for various scenarios are calculated for each defined portfolio as part of the static analysis. The various scenarios and risk parameters below are analyzed to determine their impact on the economic value of the position:

- Parallel shifts in the interest rate curves (+/-25bp, +/-50bp, +/-110bp, +/-145bp, +/-200bp, +/-300bp)
- Non-parallel shifts (flattening, steepening, humping scenarios using different slope and shift pace).
- Worst-case scenario (derived from historical time series)
- Regulatory scenarios based on EBA/GL/2022/14 Guidelines on the management of interest rate risk arising from non-trading book activities incl. EBA/RTS/2022/10
- Various changes in the shape of the yield curves (steepening, flattening, humping) with different pace of increase/decrease of interest rates
- Reverse stress tests
- Forward-looking scenarios based on macroeconomic expectations
- Other scenarios as required.

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

Interest rate risk mitigation strategies

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 2023, approximately 43% (2022: 39%) 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 risk reporting systems

The full Management Board is informed monthly about all risks in the S-ALCO based on the comprehensive Market Risk Report and in the ERM (part of the Group Risk Report). In addition, the full Management Board is informed immediately in the event of any material changes in the risk situation.

OPERATIONAL RISK

The definition of operational risk (OpRisk) refers to "the risk of losses due to inadequacy or failure of internal processes, people and systems or due to external events." This definition includes all its subtypes, e.g. legal risk, compliance risk, outsourcing risk, conduct risk and ICT risk as well as ESG risk.

STRATEGIES, PROCESSES AND MANAGEMENT

Article 435 (1) point (a) CRR

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), yearly risk assessment processes for all divisions and subsidiaries, uniform materiality and risk assessment of outsourcing activities, a sound product implementation process (PIP) including a CSR/ESG statement and monthly monitoring via key risk indicators.

Upon exceedance of defined thresholds – e.g. red KRIs, signaling high identified risks – 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. Aligned teams in the first and second line of defense ensure the implementation and effectiveness of these measures.

STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK MANAGEMENT

Article 435 (1) point (b) CRR

Within the OpRisk Management Policy, the Management Board determines principles for the management of operational risks that are applicable throughout the Group. These activities are coordinated centrally by the unit Data Governance, OpRisk & ESG in order to ensure a common approach. The management of operational risks is handled locally in the individual business segments in the respective Group units by the division heads or managing directors and their operational risk agents. All employees are responsible for identifying operational risks and proceeding in accordance with the appropriate regulation. The guidelines for operational risk management are defined in the OpRisk Management Policy, the ICS Policy, the Outsourcing Policy, the Product Implementation Process Policy and in the respective internal manuals and technical documentation.

RISK MEASUREMENT SYSTEMS

Article 435 (1) point (c) CRR

The following risk measurement systems are in use:

Loss data collection

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

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.

Definitions:

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

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

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

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

Risk control self-assessment (RCSA)

Annual RCSA per business unit (division/subsidiary)

Using the RCSA framework, all organizational units and subsidiaries identify and assess their material processes, operational risks and the risk of disregarding regulatory requirements on a yearly basis via a uniform framework. This includes the assessment of internal control measures, the estimation of probabilities and the extent of losses arising from individual risks. A link to the Business Continuity Plan and Business Impact Analysis is established within the RCSA. In addition, the responsible divisions and subsidiaries define worst case estimations and identify the respective risks related to climate change and renewable energy transactions, as well as related to demographic change or other social issues.

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

If the risk potential exceeds a defined limit, the evaluation of the implementation of appropriate measures is mandatory. Their implementation is subject to continuous subsequent monitoring. An internal measure tracking application enables all divisions to make decentralized enquiries about the agreed actions and to process and report the completion of these actions in a decentralized way.

Ad hoc risk assessment

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 and processes.

Outsourcing assessment

An outsourcing assessment must be conducted for all outsourcing contracts. The aim is to identify and assess any operational risks associated with outsourcing projects. The assessment must be performed before an agreement is signed so any potential risk assessment findings can be considered in the contract.

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

Key risk indicators

Key risk indicators (KRIs) show risks in the banking processes and indicate changes in the risk profile to identify and forecast negative trends or a changed risk profile in company workflows and divisions/subsidiaries in a timely manner.

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

Operational risk assessment of new business segments or products

New business segments or products have to be introduced using a product implementation process in which all defined divisions submit their vote and any possible conditions in an end-to-end analysis of the process. ICS is included within the process steps and in the automated workflow.

Stress tests

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

Risk reporting systems

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

- The ERM receives a summary of the P&L impact, the KRIs and the regulatory own funds requirements, as well as the ICAAP limit including the utilization as part of the Group Risk Report.
- The divisions and the subsidiaries receive periodic summaries of the losses, RCSA results, KRIs and open measures.
- The results from the annual RCSAs and ad hoc risk assessments are reported in separate reports to the respective division heads, the Management Board and Internal Audit.
- The results from the outsourcing assessments are reported periodically in the NFR & ESGC.
- Relevant PIPs are reported periodically in the NFR & ESGC.
- An overview of all pending measures for reducing operational risk (as set forth in the RCSA and the PIP) is reported via the NFR & ESGC to the Management Board on a quarterly basis.

RISK HEDGING AND MITIGATION

Article 435 (1) point (d) CRR
BAWAG Group has laid the basis for operational risk mitigation with its segmented organizational structure, clear rules on competencies and responsibilities, and work instructions. In addition, consistent guidelines on corporate authorization levels help to achieve the goal of a controlled risk situation, as well as the implemented ICS, which (adequately) captures the risk. The ICS does so, for example, by means of the dual control principle, separation of functions, access checks, limited authorizations, computer-assisted plausibility checks and system tests. In addition, centrally regulated insurance management helps to hedge the risks.

OWN FUND REQUIREMENTS

Article 446 points (a)–(c) CRR

The regulatory own fund requirements for operational risks are calculated using the standardized approach pursuant to Article 317 CRR. The advanced measurement approach pursuant to Article 321 CRR is currently not applied.

Therefore, it is not subject to disclosure obligations in accordance with Article 454 CRR.

LIQUIDITY RISK

Article 435 (1) points (a)–(d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

The ALM team in the TM division and the S-ALCO (Strategic Asset Liability Committee) handle liquidity management throughout the Group. RM independently measures and monitors liquidity risks. The principles and goals below serve as the point of departure for liquidity management:

Principles of liquidity control

- Liquidity management is a central core competence.
- Together with capital, liquidity represents the most important scarce resource of the Bank and must therefore be controlled.
- Liquidity has a price that fluctuates with supply and demand.
- Primary responsibility for liquidity management is allocated to the TM division, which is part of the CFO organization. Within TM, the TMB department is tasked with the main responsibility for liquidity management including acting as the central function with control to monetize the liquidity buffer.
- ALM does not pursue its own profitability goals in the process.
- BAWAG Group follows a centralized approach to liquidity management. This includes that the size and quality of the liquidity buffers, liquidity risk-relevant KPIs, the funding strategy and the execution of refinancing measures as well as the disposition of excess liquidity is determined by BAWAG Group and aligned with its subsidiaries. Subsidiaries are generally expected to refinance their funding needs or to deposit their excess liquidity with BAWAG P.S.K. in accordance with their governance and legal or regulatory constraints (e.g. legal lending limits, LCR inflow caps etc.).
- RM is responsible for liquidity risk measurement, quantification, monitoring and controlling, and providing independent risk oversight.
- Control activities are geared primarily towards liquidity cover, secondly towards liquidity structure and thirdly towards liquidity costs.
- From an organizational standpoint, ALM manages liquidity independently of the business areas, but the effects of liquidity actions are analyzed and taken into account at the level of the business areas.
- Income, accounting and RWA effects are considered in the process, as are the ramifications for collateral, regulatory key ratios, maturity structure and the franchise value.
- Liquidity control is performed indirectly with internal clearing prices for customer business and indirectly with needs-based transaction pricing for large-volume wholesale funding.
- The price of liquidity is determined centrally using defined methods. ALM serves as the counterparty for all business areas with respect to obtaining and extending liquidity.
- Liquidity control takes account of possible negative effects from risks to BAWAG Group's reputation.

Goals

The central goals of liquidity control are as follows:

- Ensure sufficient liquidity even in a stress case
- Meet short- and medium-term liquidity needs and ensure long-term funding based on planning and forecast calculations for each currency
- Develop and maintain the strategic refinancing structure
- Maintain sources of financing on the capital market and in customer business even in periods with a minimal need for obtaining refunding
- Reduce the concentration risk as regards the maturities profile and through diversification of funding sources and counterparties

- Optimize the maturity structure and funding costs
- Maintain a sufficiently large liquidity buffer at the lowest possible costs
- Comply with all internal and external key ratios and regulatory limits for liquidity
- Invest excess liquidity based on planning and forecast calculations
- Adjust liquidity prices in the short term to optimally control liquidity
- Take into account strategic elements for the procurement of funds such as the franchise value for customer deposits and customer relationships

Liquidity risk statement

BAWAG Group has established a Group-wide Internal Liquidity Adequacy Assessment Process (ILAAP) framework which defines the Group's liquidity risk management processes, steering mechanisms, funding strategies and liquidity risk limits to adhere to the overall risk appetite. The overall risk appetite defined by the Management Board serves as the boundary condition for the risk strategy. The limits set for liquidity risk within the ICAAP and ILAAP are strategic specifications for the steering and limitation of the Group's overall risk position and express the Group's risk appetite. Compliance with these limits ensures an adequate liquidity position.

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

Retail and corporate savings products have been the core part of the Group's funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. This strategy is confirmed by a share of stable customer deposits contributing more than 60% of total balance sheet funding, with retail deposits representing the most important pillar.

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

In addition to the stable deposit base, in 2023 the Bank successfully placed € 2.2 billion in mortgage and public covered bonds (€ 870 million in January; CHF 140 million in February; CHF 180 million and € 75 million in April; € 750 million and CHF 125 million in May), € 400 million in subordinated debt and € 710 million in senior unsecured debt, which again proved BAWAG Group's good capital market access and the positive perception among investors. As of 31 December 2023, BAWAG Group also utilized € 580 million of funding under the ECB's TLTRO III facility (after repayment of € 2.0 billion in January 2023 and € 2.8 billion in June 2023). The maintenance of a robust liquidity and funding position is considered to be a core element of the successful implementation of the overall business strategy.

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

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

Within the ILAAP framework two complementary perspectives are evaluated to assess the adequacy of the bank's liquidity and funding positions over a multi-year horizon. These perspectives include the 'economic' and 'normative' perspective and in regard to consider scenarios they are aligned with ICAAP simulations.

On the basis of its ILAAP, the Group conducts an ongoing self-assessment of its liquidity risk profile, risk measurement and management framework, and liquidity adequacy. The outcome of this process is documented annually in the Group's liquidity adequacy statement (LAS) signed by the Management Board of BAWAG Group. On the basis of the ILAAP, the Management Board is convinced that the current risk management framework allows for the comprehensive identification, quantification, measurement and steering of all relevant liquidity risks and considers the liquidity and funding position of BAWAG Group to be solid and fully adequate as of 31 December 2023.

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

Organizational structure

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

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

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

RM, a division reporting to the CRO, measures the current liquidity risk, prepares limit proposals for the S-ALCO and monitors compliance with the defined limits and liquidity buffers.

TM is responsible for the operational execution of money market and capital market transactions.

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

The reporting of the current and projected liquidity position as well as the funding potential is performed by the TM division. One of the most important key ratios is FACE (Free Available Cash Equivalent), which is internally defined at BAWAG Group. The liquidity buffer is divided into a short-term and medium-term portion that can be liquidated. The reporting of the liquidity risk is done by RM.

RISK MEASUREMENT SYSTEMS

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

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

The stress scenarios are distinguished as follows:

- Intraday stress
- Idiosyncratic stress
- Systemic stress
- Mixed stress scenario
- Reverse stress test
- Forward-looking adverse scenarios (ICAAP/ILAAP)

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

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

RISK REPORTING SYSTEMS

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

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

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

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

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

RISK HEDGING AND MITIGATION

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

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

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

LIQUIDITY COVERAGE RATIO

Commission Delegated Regulation 2015/61 with regard to liquidity coverage requirements for credit institutions (Delegated Act) came into force as of 1 October 2015. The Delegated Act supplements and amends the rules for the calculation and reporting of the liquidity coverage requirement (LCR) of the CRR. At the consolidated level, BAWAG Group is subject to the LCR requirement and to the LCR disclosure requirement. LCR requires banks to hold high-quality liquid assets (HQLA) to cover net cash outflows over the period of 30 calendar days, calculated under the assumption of severe liquidity stress.

High-quality liquid assets (HQLA)

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

BAWAG Group's HQLA consist primarily of central bank and government assets assuring maximum reliability in times of stress. All securities that are included in BAWAG Group's HQLA must meet internal requirements that ensure low levels of concentration with respect to issuers and their origin.

Net cash outflows

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

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

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

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

As of 31.12.2023, the average LCR value for the last 12 months amounts to 215% with an HQLA portfolio of € 10,844 million and € 5,063 million in net outflows.

The average LCR figure stated above significantly exceeds the regulatory LCR requirement, characterizing a solid liquidity position throughout the whole year of 2023 even under the current economic crisis.

NET STABLE FUNDING RATIO

With the implementation by the European Parliament, Regulation (EU) 2019/876 Net Stable Funding Ratio (NSFR), initially introduced by the Basel Committee, has finally become a binding requirement in the European Union. As a large institution, BAWAG Group is obliged to present NSFR information on a semi-annual basis.

The aim of NSFR is to promote a stable funding structure in relation to the composition of institutions' assets and off-balance-sheet activities. It is achieved by limiting the possibility of overreliance on short-term funding. The regulatory limit of 100% requires banks to keep available stable funding (AFS) at least in the same amount as required stable funding (RSF).

As of 31.12.2023, the NSFR for BAWAG Group was at 141.08%. The increase as compared to year-end 2022 was due to a decrease in RSF and an increase in ASF. The increase in ASF was driven by new own issuances whereas the decrease in RSF was due to lower stock of total loan volume.

CONCENTRATION RISK

Article 435 (1) points (a)–(d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

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

The Risk Management Organization (Risk Modelling) manages, limits and controls concentration risks and reports them on a monthly basis to the PSC, composed of controlling, markets and risk division heads.

Risk concentrations arise from large exposures in individual customer segments or from large total exposures in certain industries, countries or foreign currencies whose loss potential could endanger BAWAG Group's core business or has an impact on the risk profile.

Concentration risk at the level of products is dealt with in the Credit Risk Policy. The management of country and industry limits is carried out as a standard process in accordance with binding internal guidelines.

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

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

RISK MEASURING SYSTEMS AND LIMITATION

Allocated economic capital is the basis for quantifying the concentration risk at the level of individual borrowers and groups of affiliated customers. The quantification is part of the portfolio steering framework (in place since 2015).

Appropriate limits are determined for countries, for industries (for the segment Corporates, Real Estate & Public Sector) and for currencies, and constitute an integral part of the efforts to control total Bank risk.

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

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

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

All material risk factors are depicted in scenario analyses and stress tests using VaR models in order to analyze and monitor market concentration risks.

Regarding concentrations of operational risks, the focus is on activities with a long business history, and particular emphasis is also placed on adequate assessments of new lines of business.

Active monitoring of funding requirements and its structure paired with broad diversification of funding sources supported by a range of limits are precautions against potential liquidity problems from risk concentrations in the investment and funding structure.

REPORTING SYSTEMS

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

After the competent risk committee receives and approves the concentration risk report, the report is communicated to the relevant underwriting units.

ESG RISK

Article 18 point (a) CRR
Article 443 point CRR
Article 449 point (a) CRR

ESG risks are environmental, social or governance events or conditions, which if they occur have or may potentially have significant negative impacts on the assets, financial and earnings situation, or reputation of a supervised entity.

Of particular importance in connection with environmental and climate risks are physical and transition risks. Physical risks arise both from individual extreme weather events and their consequences (e.g. heat waves, droughts, floods, storms, hail, forest fires and avalanches), and from long-term changes in climate and environmental conditions (e.g. rainfall frequency and volume, volatile weather conditions, rising sea levels, changes in sea currents and winds, ocean acidification and global warming with regional extremes).

Transition risk exists in connection with the change to a low-carbon economy. Political measures may lead to fossil fuels or emissions certificates becoming more expensive and/or scarce (e.g. fossil fuel phase-out and carbon taxes), or to high investment costs as a result of the required clean-up of buildings and plants. New technologies may replace existing ones (e.g. electromobility) and a change in counterparty preferences and societal expectations may endanger entities that have failed to adjust.

QUALITATIVE INFORMATION ON ENVIRONMENTAL RISK

BUSINESS STRATEGY AND PROCESSES

Climate change is a major challenge to be addressed by global society and will impact us as a banking institution and our risk profile, as well as being relevant in terms of how we impact the environment. We believe that ESG underpins sustainable long-term profitability and is a critical part of managing our risk.

Doing business sustainably is the key to the long-term success of all of our stakeholders. It also requires financial resilience and therefore, sustainable value creation is at the core of our decision-making and how we steer the Bank. We do not pursue a separate ESG strategy, as we view it as an integral part of our overall business strategy, and this is also aligned with how we have embedded ESG across the organization.

ESG runs through our business strategy and is a key part of our prudent risk management framework. We have historically considered environmental and societal factors in our credit decisions, as they will impact our potential borrowers' repayment of loans over time. Our group wide ESG strategy is integrated into the core processes, ensuring the effective identification, measurement and management of environmental risks across the Group and within our material business lines.

As a bank, we can influence climate change in two ways: Our direct use of resources is limited, however we have continuously established initiatives and set targets to reduce our CO2 emissions. Even more important is our indirect impact through our lending and investment activities.

Part of integrating ESG into the business is ensuring we outline specific targets that have been integrated into the Group's overall medium-term targets. We reconfirm our 2025 ESG targets, which we laid out during our investor day in 2021. When setting our ESG targets back in 2021, we wanted to serve as a positive example for our customers, launching initiatives to reduce our own CO2 footprint. However, our biggest emissions as a bank arise from our financed emissions, which we are disclosing for the first time for 2023. In 2024, we will assess a transition pathway for our residential mortgage and commercial real estate assets, as these represent the largest exposures on our balance sheet. As far as other asset classes, we currently have a very low exposure to mid-to-high-emitting sectors across our corporate and public sector exposures.

ESG targets	2020	2025
CO_2 emissions (own scope 1&2 emissions*)	3,477tCO_2	>50% reduction vs. 2020
Women quota: - Supervisory Board - Senior Leadership Team	Baseline 2020 17% 15%	 33% 33%
Green lending new business	€ 0.8 billion	>€ 1.6 billion

*2020 base restated for enhanced scope; 2020 will be adjusted in case of enhanced scope, M&A etc.

Furthermore, 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 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 industries. Our oil and gas-related industry exposures are de minimis. The detailed list is published in the Corporate Social Responsibility Report as well as the up-to-date lending criteria on our website.

While we are committed to contributing to the transition to a greener future – be it through financing the renovation of houses or the switch to renewable energy by retail customers or by monitoring our low exposure to high-emitting sectors - we believe that managing the business responsibly and focusing on the profitability of our business is a prerequisite for the long-term success of a company independent of the industry. Therefore, all financings need to meet our underwriting and profitability guidelines.

In our Retail & SME business segment, we offer housing loans, consumer loans, dental factoring, leasing, SME loans, current accounts, cards, social housing, payments, insurance products and securities.

In Corporates, Real Estate & Public Sector, our focus is on the DACH/NL region as well as developed and mature markets in Western Europe and the United States. Regarding lending to specific sectors, we have introduced lending criteria to industries we no longer lend to as well as industries which are restricted and monitor the development of these. Moreover, assessment of ESG risk is an integral part of deriving the risk perception of every industry. Industry reports are updated regularly and on an ad hoc basis to react adequately to quickly changing environments. In single loan underwriting, (risk) statement on ESG risk are incorporated where appropriate depending on size and materiality (e.g. in appraisal reports, risk statements, credit memo).

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.

While we are aware that the analyses and assessments we perform may not be complete as of today and that there will be better knowledge we gain over time due to the improvement of data, we view our strategy as resilient based on the knowledge we have today, given the relatively low exposure to high-emitting industries in the corporates segment on one hand and that the products we offer will transition to a greener underlying over time (e.g. mortgages, leasing).

GOVERNANCE

Sustainability is integrated in our governance across hierarchies, which enables us to make progress across various businesses and functions. Our approach is to have sustainability responsibilities integrated in existing functions rather than having central teams to work on stand-alone processes. This aims to balance our existing business strategy with the sustainability challenges ahead of us.

For this purpose, the Group has set up an appropriate governance structure to ensure that the identification, measurement, assessment, management and monitoring of ESG risks are fully integrated into the Group's risk management framework and are constantly improved over time.

The management of environmental, social and governance risks is established across all hierarchy levels in BAWAG Group. As described above a dedicated committee has been set up on Supervisory Board level in 2021 discussing the ESG organization, framework and development. The ESG Committee works closely with the Management Board and the ESG Officers to ensure that we continue to drive responsible, sustainable and profitable growth.

On Management Board level, ESG topics are discussed in several committees. The Management Board (MB) is responsible for the management of all risks, the approval of the respective methods and strategies, approval of potential ESG contributions and ESG risks in new markets, products and processes, approval of the ESG Risk Framework Policy or delegation to an authorized committee, e.g. the Non-Financial Risk and ESG Committee (NFR & ESGC), the approval of the quantification method and the limits for the Internal Capital Adequacy Assessment Process (ICAAP). ESG components are integrated into the Management Board's performance-based compensation. External ESG targets are embedded in the long-term incentive program for Management Board members and selective staff.

Relevant parameters and initiatives regarding ESG are monitored in the Non-Financial Risk and ESG Committee, which is chaired by the CRO and attended by all other Management Board members as well as selected BAWAG senior staff (including BAWAG's ESG Officers). 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 committee works with experts in various areas and departments to continuously advance BAWAG Group's commitment to sustainability.

Dedicated ESG Officers plan, monitor and report the respective workstream progress and goals. In addition, regular alignment meetings are held with the CFO and the CRO to ensure proper enhancement and implementation of ESG processes and measures.

Specific working groups were set up based on different workstreams to address the current and upcoming ESG topics and support the operationalization of the ESG strategy in all relevant divisions. Additionally, all employees of BAWAG Group are responsible for identifying ESG risk and proceeding according to the relevant regulation.

The Risk Management Organization bears responsibility for ESG risk management with Validation in the lead and in coordination with the respective risk management divisions. 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 entire Management Board is informed proactively and at least monthly about the relevant risks. Quarterly risk and compliance reports are submitted to the respective committees of the Management and 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.

To ensure a robust and adequate management of ESG risk on all levels, the three lines of defense model applies within BAWAG Group:

First line of defense

The first line of defense is responsible for defining the processes including an appropriate ICS. It is also responsible for the operative risk-management such as the identification, assessment, estimation and execution of defined measures. In this context, the regulations of the second line of defense must be observed.

Second line of defense

Tasks of the second line of defense are to develop, implement and service uniform risk management methods and thereby support and monitor the first line of defense. It is also responsible for fulfilling the regulatory requirements and the reporting within BAWAG Group AG and to the auditor.

Third line of defense

The third line of defense represents an independent, objective position the audits and assesses the effectivity, control mechanism and the tasks of both first lines.

RISK MANAGEMENT

The implemented risk management framework ensures the effective identification, measurement, and management of risks across the Group and forms the basis to make informed risk-based business decisions. It makes it possible 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. Sustainability risks are environmental, social or governance events or conditions, which if they occur have or may potentially have significant negative impacts on the Bank's assets, financial and earnings situation, or reputation.

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. In order to adequately reflect this approach, ESG aspects have been integrated into all important processes along the whole risk management cycle covering the following dimensions:

- Risk identification
- Risk assessment and risk appetite
- Treatment and mitigation
- Monitoring and reporting

Risk Materiality Assessment

In 2023, BAWAG Group conducted a top-down and bottom-up materiality assessment to assess the potential impact of physical, transition and environmental risk drivers on its credit risk, market risk, liquidity risk, non-financial risks (operational, compliance, legal, conduct, model and third-party risk) and other risks (strategic, reputational and business risk). All risk drivers and risk types were analyzed over the short-term (1-2 years), medium-term (2-10 years) and long-term (10 years and more) horizon.

Table 13: Scope of risk materiality assessment

Risk drivers in scope	Covered risks
Physical risk	Water stress, river flood, heatwave, cold wave, tropical cyclone/hurricane, wildfire, coastal flood/sea level rise
Transition risk	Policy and legal risks, technological developments, and market changes that occur from transitioning to a lower carbon economy
Environmental risk	Overfishing, water stress and pollution, soil pollution, deforestation, animal welfare, invasive species and biodiversity loss

The goal of the top-down approach is to achieve a holistic top-of-the-house view on the impact of physical, transition and environmental risks on BAWAG Group's environment, operations, business model and strategy. The bottom-up assessment aims at evaluating the exposition, vulnerability and (where possible) the financial impact of physical and transition risks on specific parts of BAWAG Group's business which have been identified as "key areas" for deep dives in the top-down assessment. This is achieved by evaluating physical and transition risks as a driver for internal risk categories (credit risk, market risk, liquidity risk, non-financial risk etc.). Going forward, the materiality assessment will be performed as part of the risk identification process on an annual basis.

As BAWAG Group is operating predominantly in Austria, Germany, the Netherlands, and the US focusing mostly on service-related industries and secured lending, it is impacted by transitional risks in a very limited manner. In the short- and medium-term, transition risks are evaluated as low to medium. In the longer term, the risks are not expected to increase significantly.

An analysis of all of BAWAG Group's core countries in Europe (AT, DE and NL) showed that all of them have “high performance” CCPI rating regarding economy decarbonization. Governments started to act early (low risk of disorderly transition) and introduce ambitious climate protection laws accompanied by financial aid to support transformation (both corporates and vulnerable social groups). Financial capacity to support a socially just transition is high. Hence, overall risk in BAWAG Group's European core countries is rated as low.

Table 14: Results and outlook of risk materiality assessment

Risk	Climate and Environmental risk	Materiality	Outlook	
Credit risk	Physical risk	Medium	Increasing	↑
	Transition risk	Medium	Stable	→
	Environmental risk	Low	Stable	→
Market risk	Physical risk	Low	Stable	→
	Transition risk	Low	Stable	→
	Environmental risk	Low	Stable	→
Liquidity risk	Physical risk	Low	Stable	→
	Transition risk	Low	Stable	→
Non-financial risks	Physical risk	Low	Stable	→
	Transition risk	Low	Stable	→
Other risks	Physical risk	Medium	Stable	→
	Transition risk	Low	Stable	→

The assessment of physical and transition risks as a driver for internal risk categories (credit risk, market risk, liquidity risk, non-financial risk etc.) has shown that only credit risk is impacted by physical and transition risk in a material manner (medium risk). The potential impact of physical and transition risk on all remaining risk categories are currently assessed as low. Therefore, the impact on credit risk is examined more precisely in this paragraph.

Credit Risk

The Transition risk element of Credit risk is classified as medium primarily driven by the low coverage and relatively high share of low EPC labels in the residential and commercial real estate portfolios.

The analysis of BAWAG Group's portfolio and products showed that its corporate loan book is only marginally impacted by climate and environmental risks due to its low exposure to high emitting industries. Furthermore, this exposure to high emitting industries is composed of a few single customers and includes numerous state-affiliated companies in the energy sector which are presumably already working on making their business models climate and future proof and thus transition risk for those companies is expected to decrease over time. As of 31 December 2023, we had approximately € 400 million exposure classified as high and very high from transition risk perspective.

BAWAG Group's Retail & SME business (excluding mortgages) is also rated as low risk. Certain planned strategic actions (i.e., grow in the secured business), will further reduce impact of climate and environmental risks on BAWAG Group's portfolio.

Mortgages and commercial real estate (CRE) were the only products with medium physical and transition risk in the medium to long-term.

The Physical risk element of Credit risk is classified as medium, primarily driven by the outcomes of sensitivity analyses and concentration measures of the corporate and real estate portfolios. The proportion of real estate (housing loans and CRE) exposures with a “high” physical risk rating stands at <20% resulting in a medium assessment for this driver.

The Environmental risk element of Credit risk is classified as low based on the ENCORE (Exploring Natural Capital Opportunities), Risks and Exposure methodology.

Market risk

The Physical, Transition and Environmental risk elements of Market risk is currently classified as low with stable outlooks due to the relatively low riskiness of BAWAG’s bond, FX, and commodities portfolios.

Liquidity risk

On the funding and liquidity side BAWAG is resilient to C&E risks. Liquidity buffer consists of high-quality bonds.

Non-financial risk

Same applies to non-financial risks (in particular, OpRisk). Physical risks evaluated for all locations of BAWAG’s operations incl. outsourcing are low (not material).

Lending criteria

BAWAG Group has defined lending criteria for the Corporate, Real Estate & Public Sector 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.

Internal ICAAP and stress test framework

ESG risk is also considered within BAWAG Group’s ICAAP and stress test framework. A separate adverse 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.

In 2023, 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 14 PIPs were conducted, 4 of which met at least one environmental criterion, 5 of which met at least one social criteria and all met the governance criteria.

ESG Data Universe

BAWAG Group actively works on several activities to improve the identification, measurement and mitigation of climate-related risks. We believe that ESG related data is the key to a successful transition and therefore closely monitor and improve the already available information (i.e. sector, location data, etc.) and at the same time enhance the infrastructure to collect further ESG relevant information (i.e. energy performance certificates, CO2 emissions).

Data management is a fundamental element of BAWAG's business activities, decisions and governance. Based on the regulatory requirements of BCBS239 and the understanding that data is a corporate asset, we have built a robust data governance framework following consistent standards throughout the Group that apply to ESG data as well.

BAWAG's data is stored in a central data warehouse, which is the basis for data historization, aggregation, steering and reporting. ESG-relevant data consists of existing portfolio data (loan portfolio, industries, countries, etc.) as well as extended specific information that has become part of the regular data warehouse. ESG is a very wide-ranging, comprehensive topic thus the data related to ESG management encompass several dimensions. Several initiatives are currently ongoing to ensure that further information and data quality will improve over time.

External data will be included into further process adaptions and enhancements for establishment of further ESG identification and assessment methodologies and therefore underlies the same quality requirements as internal data.

The implemented risk management framework ensures an effective identification, measurement, and management of risks across the Group and builds the basis to make informed risk-based business decisions. It allows 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. Sustainability risks are environmental, social or governance events or conditions, which if they occur have or may potentially have significant negative impacts on the assets, financial and earnings situation, or reputation of a supervised entity.

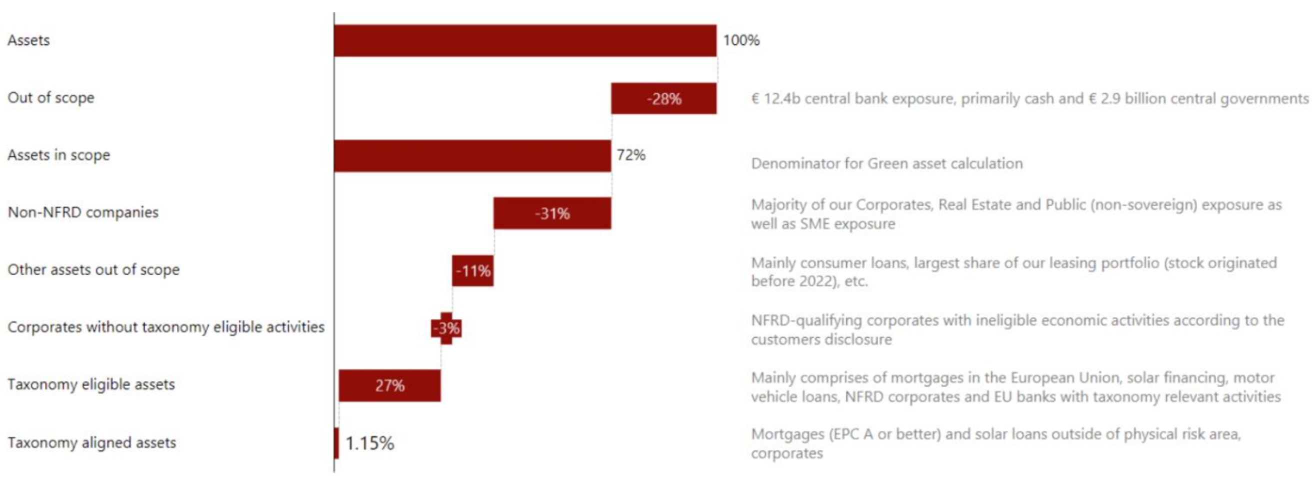
Green Asset Ratio

The EU Taxonomy Regulation sets out a framework that allows stakeholders to determine whether or to what part economic activities are environmentally sustainable. The Green Asset Ratio (GAR) indicates the proportion of taxonomy-compliant financial activities relative to all assets covered by the EU Taxonomy. It is designed as the central Key Performance Indicator (KPI) for disclosing a bank's green business. Starting from 2024 for the 2023 fiscal year, banks are required to disclose the GAR.

In the context of financial institutions, the GAR provides insights into how much of the portfolio aligns with sustainable and environmentally friendly activities. It reflects the bank's commitment to supporting the transition to a greener economy.

The GAR calculation considers the share of assets that meet the EU Taxonomy criteria, ensuring transparency and accountability in sustainable finance. By increasing funding for environmental and climate-related expenditures, we can support the collective progress towards sustainable development goals and emissions reductions.

Derivation of taxonomy-eligible and Taxonomy-aligned economic activities



Financed Emissions

The PCAF Standard provides detailed methodological calculation guidance for seven asset classes (listed equity & corporate bonds, business loans & unlisted equity, project finance, commercial real estate, mortgages, motor vehicle loans and sovereign debt). BAWAG Group primarily used the NACE codes of its customers to classify them into the appropriate PCAF class.

Altogether, the portfolio's financed emissions totaled 2.7 million tCO2e, with emission intensity of 93 tCO2e/EUR million. The weighted average data quality of the quantified portfolio was 4.1.

Table 15: Financed emissions overview according to PCAF asset classification

Asset Class/CO2 Financials	Gross carrying amount in € million	Financed GHG emissions (kt CO2)	Financed GHG emissions (in tCO_2e/EUR millions)	Blended data quality score
Mortgages	14,575	388	27	4.0
CRE	5,199	241	46	4.3
Listed Equity & Corporate Bonds	4,825	1,601	332	3.75
Business Loans & Unlisted Equity	3,755	364	97	5.0
Motor Vehicle Loans	957	133	139	2.5
Sovereigns	11	3	271	4.0
Total	29,327	2,731	93	4.1

The quantified value of our portfolio covers €29.3 billion or nearly 55% of the total asset base. After excluding cash and equivalent reserves stored at central banks, it represents a substantial >70% of assets on our balance sheet. The remaining asset value that is not covered is in asset classes such as consumer lending and credit cards whereby emissions calculations are not possible. Therefore, the emissions quantification of our balance sheet covers all relevant assets. Financed emissions for the asset classes 'Residential Mortgages', 'Commercial Real Estate', 'Listed Equity & Corporate Bonds', 'Business Loans & Unlisted Equity', 'Motor Vehicle Loans' and 'Sovereigns' were calculated as of end of 2023.

Several asset categories, including cash and money market, current accounts, credit cards and consumer loans – are out of scope of the PCAF standard and therefore not taken into account for the calculation of financed emissions.

The aggregated level of financed emissions benefited from a favorable balance between the lower financed emission intensity of real estate and the lower share of corporate exposure overall and further the marginal share of high-emission heavy industry and energy sectors.

Within the asset class 'Listed Equity & Corporate Bonds', energy providers mostly under the control of public authorities account for the majority of CO2 emissions. To a lesser extent this also applies to the asset class 'Business Loans & Unlisted Equity'.

The high emission sectors comprise less than 10% of our total business loans (listed equity and unlisted business loan categories) and approximately 1% of our total asset base. This minimal exposure is primarily in the electricity distribution sector (~500m) through a small number of customers that serve as public service entities (or publicly supported). With a low exposure and concentrated customer base, the transition focus here is tactical and, on a customer, -by-customer basis that will be assessed in an ongoing manner.

The material balance sheet exposures are comprised of residential real estate mortgages as well as commercial real estate collateralized lending.

Residential retail mortgages represent € 14,575 million assets the biggest asset class. Financed GHG emissions amount to 27 tCO2e/€m for this portfolio with a blended DQ score of 4. Initiatives to increase the EPC coverage also for the Austrian portfolio have been implemented, which should enhance reporting in 2024. Despite the low intensity of emissions, mortgages are a substantial contributor of absolute emissions financed due to the materiality of the lending volume. Therefore, this is a focus of our emissions transition planning strategy.

Commercial real estate covers € 5,199 million of assets and a total of 241 kt financed CO2 emissions. Buildings and construction tend to be high contributors of absolute emissions, and represent a material exposure of BAWAG customer loans, and therefore despite the low intensity is a focus of a transition planning strategy efforts.

Listed equity and corporate bonds: Financings provided to corporates with listed equity or corporate bonds are the biggest contributor in terms of absolute GHG emissions (1,601 kt). The high emissions are driven primarily by a small number of public sector customers in the electricity industry implying a case-by-case strategy in terms of transition pathways. The total exposure of these public electricity-sector customers represents on 8% of assets in this category, yet nearly ~80% of total emissions of this sub-group. The transition plans and progress with this concentrated set of customers will be assessed further in 2024. Execution of these plans is dependent on public or governmental requirements and support, which form the baseline for our expectations and financing strategy. The remainder of the sub-group (excluding the electricity sector) remains at a low level (92% of exposure represents 20% of total emissions) which is due to our risk appetite which avoids of significant transition or environmental risks. Listed equity and corporate bonds are comprised of securities of and loans to international corporate entities that publicly listed and typically provide higher quality sustainability reporting.

Business loans and unlisted equity covers € 3,755 million assets and a total of 364 kt CO2 emissions. Business loans represents financing to international and national corporate entities as well as small business enterprises that are not publicly listed.

Motor vehicle loans cover the relevant car leasing portfolio of € 957 million assets with a total of 133kt CO2 emissions. The data quality score in this asset class is considered satisfactory with 2.5 and is based on individual asset details.

Sovereigns builds the smallest asset class of € 11 million assets and 3kt CO2 emissions completing the calculation according to PCAF.

QUALITATIVE INFORMATION ON SOCIAL RISK

BUSINESS STRATEGY AND PROCESSES

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 social concerns. 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 social inclusion.

Product implementation process

As stated above, one of the key tools for the management of ESG risks is the product implementation process (PIP). Environmental, social and governance risk factors are assessed within every PIP to ensure that new introduced products are in line with ESG requirements.

Risk control self-assessment (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 2023, 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. Additionally, a risk materiality assessment was conducted in 2023.

Employee training

In general, the quality and availability of social data across a couple of relevant aspects is limited. Internally, BAWAG Group assesses social risks on a regular basis, e.g. shortage of experts due to demographic change. BAWAG Group focuses on further improving social skills across the entire employee base. Targeted, Group-specific use of the wide range of online training courses offered by the GoodHabitz learning platform has been a major success. These training 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.

Social opportunities

BAWAG is constantly working on broadening funding for German affordable/social housing companies. Regarding building society loans, start:bausparkasse, a subsidiary of BAWAG, is the only building society in Austria offering a building society loan for financing housing measures with a 30-year fixed interest rate. Furthermore, BAWAG offers “New Chance” accounts, which were introduced in 2009. This product 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.

ESG targets

We have committed ourselves to tangible ESG targets, which we have embedded into our operating plans (see above).

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 Advancement 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

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

The Women's Mentoring Program is aimed at female employees who would like to benefit from internal or external top managers from the business world as mentees and broaden their horizons. 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 9th Women's Mentoring Program will be finished in Q1 2024.

Social risks

To effectively mitigate risks associated with social factors, we have implemented a comprehensive risk management framework that incorporates social risk factors. We achieve this by integrating social risk analysis into existing credit risk assessment processes, ensuring that our policies and procedures align with social responsibility principles, and establishing a robust internal control system that monitors social risks regularly.

To better understand counterparties' capacity to manage social risks, we engage in regular dialogue with counterparties to gather information on social risks they face and their mitigation strategies. This dialogue involves a range of stakeholders, including community groups, civil society organizations and customers. By engaging with these groups, we gain a deeper understanding of the social risks associated with counterparties and are able to assess their ability to manage them effectively. Furthermore, we use this dialogue to identify opportunities for collaboration with counterparties to mitigate social risks and enhance social value. To ensure that the dialogue is effective, we have established clear communication channels and protocols.

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.

At BAWAG, we recognize our social responsibility in contributing to sustainable development. Our commitment to social engagement is an integral part of our identity and extends beyond traditional banking services to actively engaging in initiatives that foster financial education, support underprivileged communities, promote environmental sustainability, and empower individuals to climb the social ladder.

By following this, we aim to contribute positively to society, create long-term value, and achieve an impact that reflect our dedication to sustainable and responsible banking practices.

We believe in supporting projects with a social purpose across all age groups, mainly in the markets we operate in. We focus on projects on a long-term basis. 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 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. 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 accept our social responsibility and are committed to socially relevant issues. Basically, there are two pillars in this area:

(i) Corporate Volunteering with “matching” by the Bank via financial support to the organizations and
(ii) Donations with “matching” by the Bank.

Corporate Volunteering

At BAWAG Group, we understand that our responsibility to society extends beyond financial contributions, and we recognize the invaluable impact of human capital. To encourage and amplify the positive influence of our dedicated employees, we are committed to extending the number of corporate volunteering hours on a regular basis. Our team members have the flexibility to choose the number of hours they wish to dedicate to serving the greater good, participating in a range of community-focused activities aligned with our social engagement pillars. This initiative not only empowers our employees to actively contribute to the causes they are passionate about but also strengthens our collective commitment to making a meaningful difference in the communities we serve. By fostering a culture of volunteerism, we aim to harness the diverse skills and talents of our staff to address societal challenges and create lasting positive change.

We focus on community involvement and collaboration with NGOs, actively engaging with stakeholders, including employees, clients, and community leaders, to incorporate their feedback and ensure our social engagement efforts remain relevant and impactful. As a bank, we are fully committed to offering employees a broad variety of opportunities for corporate volunteerism. Employees can use a couple of working days per year to volunteer for charitable organizations and projects without having to take vacation days. Furthermore, the Bank supports these organizations with donations.

Serving people in need

Samariterbund Wien

In November 2022, the "Suppentopf" project of the Samariterbund Vienna was launched. BAWAG started to contribute to regular kitchen soup drives in January 2023 by corporate volunteering and donations. Teams of (on average) up to 6 participants cooked together for a good cause and handed out food to those in need – hot meals were distributed to people affected by poverty in Samariterbund's social markets, homeless and refugee facilities. The food is cooked in a fully equipped gastro kitchen in the 20th district of Vienna and the hot meals are served together after cooking. The soup kitchen thus creates a place that satisfies hunger - and is also a place of encounter and cohesion. Planning, purchasing and logistics are handled by the Samariterbund Wien. During 2023, a total of 87 BAWAG teams participated, with a total of 442 participants – people in need were served with more than 25,000 meals.

During the year, BAWAG enhanced its measures to support Samariterbund: In October, as part of BAWAG's 60th contribution to the Samariter Suppentopf, the newly designed communication corner in the Böckhgasse social market was officially opened. Since then, a professional coffee machine, which was purchased with BAWAG funds, is available for people in need. Furthermore, a stove was donated which will enable Samariterbund to cook more meals in the near future.

Haus Jaro

Haus Jaro provides accommodation for homeless women and men who are not covered by health insurance and who require all-day accommodation after medical treatment and/or during the recovery process. A group of 2023 year's trainees organized a barbecue for the ~70 residents of Haus Jaro.

Financial Education

We collaborate with educational institutions, non-profits, and community organizations to develop and implement financial education programs for diverse demographics. We actively promote financial literacy through workshops, seminars, and online resources to empower individuals with the knowledge needed for sound financial decision-making. We work on establishing scholarship programs to support students from low-income backgrounds in pursuing higher education.

We collaborate with educational institutions to enhance access to quality education.

Kinderuni

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 2023: 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. 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. A couple of workshops were held in which BAWAG employees participated as well during the course of 2023. In December 2023, BAWAG participated in the first virtual workshops, which are targeted at extending the outreach to children. Regarding demographics, children participating are – on average – between 8 and 10 years old.

2023 BAWAG sponsored – for the fourth time – “one day-tickets” transportation and supervision of a group of children during the Vienna Children's University in July 2023. This time, a group of 15 refugee children from Ukraine was supported who spent an entire week developing and presenting a fantastic program on the topic of climate and the future.

Furthermore, BAWAG is committed to supporting a new project where BAWAG will support in 2024: Kinderuni – First Generation Program Target is to support 180 teenagers on their way to the Matura (A level exam) who are the first one in their families making it to Matura level in Austria which will allow them to continue their education and access university or to start their professional career (“First Generation”). These are typically teenagers from underserved communities and refugee families. For this group, the way to university is presumably harder as they often lack support, knowledge or experience within their families on how to tackle the challenges to graduate from school. Support for these teenagers will be multifold: By way of private tutoring, coaching, supporting with their readings & presentations, providing them with dedicated space for studying and providing them insights to the working atmosphere so that they get motivated to follow the educational path towards university.

Three Coins

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.

Volkshilfe Tirol

Support of clients of Volkshilfe Tirol (people in need) regarding financial education: BAWAG advisors supported Volkshilfe Tirol clients in "dealing with money" and coach individuals and families at risk of poverty either in individual coaching sessions or in presentations. Coaching for women focuses on the topic of "self-empowerment", from managing one's own money to handling an account. For young people at risk of poverty, the main focus is on comparing income and expenditure. The consultations take place in various Volkshilfe offices in Innsbruck and Wörgl.

Environment

Ocean Blue

BAWAG is also committed to participate in and to support initiatives aimed at cleaning oceans and preserving marine ecosystems. In 2023, BAWAG continued its support for Ocean Blue. The organization offers companies the opportunity to make their individual contribution to conserving and cleaning the oceans, BAWAG offers its employees the opportunity to participate in BAWAG Community Days, dedicated to corporate volunteering and saving the environment. 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 2023, 95 employees participated in the 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 260 kg. In October 2023, 64 employees made a 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 220 kg of garbage.

Donations

In line with our commitment to social responsibility, BAWAG Group recognizes the importance of direct contributions to communities and rapid response during catastrophic events. We allocate a portion of our resources to charitable donations aimed at addressing the immediate needs of communities facing economic hardships. Additionally, we pledge to provide swift financial support in the aftermath of natural disasters such as floods, earthquakes, or other crises. This commitment involves collaborating with reputable humanitarian organizations and disaster relief agencies to ensure that our donations are strategically deployed to provide timely assistance, aiding in the recovery and rebuilding efforts of affected regions.

Our dedication to supporting communities during both regular economic challenges and unforeseen disasters underscores our holistic approach to social engagement. BAWAG has been the main bank of numerous charitable organizations in Austria for decades.

Our employees

Our employees are the foundation for delivering on our strategy and building the BAWAG Group of tomorrow. Technology has not only changed customer behaviour, 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 13 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 in 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.

<u>Flexible work</u>

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 resulting 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
- Caregivers 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

Whistleblowing

Open dialogue 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.

Customer safety and protection

The way we interact with our stakeholders is a key factor in the success of our company. When marketing and selling our financial products and services, we address different groups of people in our core markets: In doing so, we want to deal responsibly with the individual financial needs and goals of our clients and support them in realizing their wishes, in sustainable investments as well as in day-to-day financial transactions. Our goal is to build long-term customer relationships and to remain the bank and financial service provider of choice for generations. The following principles apply to all BAWAG Group employees involved in the marketing and sales process and include direct (e.g. personal talks with customers) and indirect communication formats, including marketing campaigns in online and offline media.

Legal compliance

We comply with legal regulations, established standards and codes of conduct in connection with the marketing and sale of financial products and services in the countries in which we operate.

Integrity and compliance

We expect all our employees to behave with integrity. We do not accept illegal or inappropriate actions that are against legal requirements or our internal Code of Conduct. We do not tolerate any white-collar crime or abusive behaviour and take strict measures against money laundering and other illegal activities.

Information protection

We are committed to comprehensive protection and responsible handling of the data entrusted to us and to respecting the privacy of our customers, employees, suppliers and other stakeholders.

Respectful behavior

Mutual respect, exceptional commitment and a strong focus on the needs of our customers are the basis of our actions and are defined in the BAWAG Group Code of Conduct. We are committed to treating customers, business partners, competitors, and other stakeholders as well as each other within the company in an open, respectful, appreciative and fair manner.

No discrimination

We are proud that employees from 53 nations with different personalities and ethnic, religious and social backgrounds work together in BAWAG Group. Openness and appreciation for all individuals and social groups are therefore important to us. We do not tolerate any form of discrimination in connection with age, gender, skin colour, sexual orientation, religion, mental or physical limitations or with any other reasons. In the marketing and distribution of our products and services, we also make sure to respectfully address and interact with all social groups.

Development of analytical skills

We are committed to carefully listening to our customers and taking their concerns and complaints seriously. It is part of our corporate strategy to continuously expand our analytical capabilities and monitoring in accordance with the data protection regulations and thus identify opportunities for improvement of our products and services at an early stage. Our goal is to find solutions that meet the needs of our customers and to continuously increase their satisfaction.

Participation and inclusion

We pay attention to making our services equally accessible to all people. We want to remove barriers both in our branches and in our online channels so that people with special needs can use our products and services and thus have an autonomous financial life.

Responsible and profitable growth

We want to help minimize non-financial risks and exploit 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 integration. Therefore, we are working on a broad view of the value chain from an ESG perspective and on broadening our understanding of risk.

Marketing

Transparent and clear

We are committed to providing our marketing and product information in a comprehensive, balanced, clearly understandable and easily comparable manner. We present the advantages and disadvantages of financial products in a balanced manner in order to highlight the associated potential risks as well as realistic opportunities.

Simple and fair pricing

We provide transparent and comparable information on the fees and interest rates for our products and services. We make sure that price information is always up-to-date and easily accessible to customers. We attach great value to easily understandable pricing structures based on our customers' usage behaviour.

Diversity and respect in advertising subjects

When designing and selecting subjects for advertising materials, we commit ourselves to diversity. We do not want to convey any stereotypes through visual language. We take care to present the respective social groups and/or individuals in an appropriate and respectful manner and to consider their cultural sign and meaning systems.

Identification of advertising

In accordance with media law, we undertake to clearly identify advertising in online and print media as such.

Sales

Appropriate recommendations

It is important to us to provide competent and understandable person-to-person advice in sales, to deal responsibly with information asymmetries between advisors and customers and, for example, not to take advantage of a lack of maturity (children or young people). Our regularly trained sales staff are obliged to question and examine the personal goals, investment horizon, risk appetite and financial situation of the customer in order to respect and take this into account when recommending products. In this way, we ensure that clients are not led to take rash actions that could put them in a financially precarious position.

Further development of technical and social skills

In addition to expert knowledge, a high degree of social skills is also necessary for us in sales – both in interaction with colleagues and in advising our customers. We are committed to communicating our values to our employees through training, continuing education programs and regular feedback.

Ongoing quality control

Internal control systems and regular customer satisfaction analyses ensure, among other things in sales, that our services are in line with the principles and guidelines we pursue.

Fair treatment and focus on core competencies

Strict guidelines ensure that our sales staff act fairly and with integrity towards our customers. We pay attention to high quality standards in advising, which are constantly monitored. It is our highest priority to ensure that the interests of our customers are always protected. We do not advise our clients on tax matters.

Human rights

We believe that human rights are universal standards that provide an important moral base for executing on our business goals. Our corporate culture is characterized by mutual respect, exceptional commitment and a strong customer focus. Respecting people's dignity and their inherent rights constitutes an essential requirement of action – the UN Guiding Principles for Business and Human Rights also outline the corporate responsibility to respect human rights, which we connect to our commitment to promote and preserve the well-being of the different social areas in which we operate. Our Code of Conduct sets forth the key understanding of banking and conduct ethics that we apply. This commitment applies to all of the relationships that we establish with our customers, suppliers, employees and other stakeholders with which business and activities are carried out.

As BAWAG, we make a substantial contribution to human rights as a lender, employer, service provider and driver of progress and prosperity. Our impact is focused on different levels, i.e. our employees, customers, suppliers but also society at large.

Our Human Rights Policy has been approved by the Management Board of BAWAG Group in accordance with our internal guidelines and will be reviewed at least annually. It describes the guidelines and principles of the BAWAG Group related to human rights. This document contains our commitment to define our framework of action in our relationship with different stakeholders.

Human rights and our employees

Our employees are the foundation for delivering on our strategy and building the BAWAG Group of tomorrow. Our common values and objectives shape our actions and our decisions and unite us as a team. Teamwork and mutual respect are of paramount importance to us. We strive to be a meritocracy: At BAWAG Group, people from more than 50 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 our Group and are the responsibility of the management, implemented operationally by Human Resources, with a direct reporting line of the head of Human Resources to the CEO, 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.

In our actions and conduct, we consider human rights, including the OECD Guidelines and the UN Guiding Principles on Business and Human Rights. We have implemented adequate internal policies and procedures designed to ensure the respect of human rights, aligned with the foundation of ethics contained in the Code of Conduct.

These commitments, amongst others, are focused on:

- prohibiting child and forced labor;
- complying with the labor law framework valid in each one of the jurisdictions where we operate;
- promoting diversity and equal opportunities;
- ensuring a working environment which is free of risks against health and safety in all of our facilities; and
- guaranteeing the freedom to form a union, the freedom of association and the right to collective bargaining.

Human rights and our customers

Environmental, social and governance risks (ESG risks) are an important factor when deciding whether to engage with clients and potential customers. Therefore, our financing choices have an impact on helping society transition to becoming more sustainable. Besides mitigating risks related to human rights, we also pursue opportunities to advance them: Since the beginning of 2020, it has been mandatory to include ESG criteria in our product introduction process. The impacts are queried and presented using a statement on sustainability aspects (CSR/ESG statement), which is integrated into the document template for product launches: Positive social aspects include the opportunity for people with special needs to participate, the reduction of discrimination, the fight against poverty and the expansion of educational opportunities.

Human rights and our suppliers

Our Supplier Code of Conduct, which is mandatory for suppliers to sign prior to entering into a business relationship with our Group, covers human rights aspects such as equal treatment, child labor, forced labor etc., including, amongst other things:

- to promote equality of chances and equal treatment of the suppliers' employees, without attention to the skin color, race, nationality, social background, disability (if any), sexual orientation, political or religious conviction and gender or age;
- to respect the dignity, privacy and personal rights of every individual;
- not to tolerate child employment; and
- to take on responsibility for health and safety of employees

Human rights and society

The United Nations plays a key role in encouraging sustainable progress. As a signatory to the UN Global Compact, we are 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. BAWAG is committed to complying with all of the applicable laws and respecting the internationally recognized human rights. We are strongly committed to the sustainable development of the societies in which we are present. This commitment is put into practice in several areas of action, including the respect, defense and promotion of human rights. BAWAG Group is committed to:

- actively collaborating with governmental bodies, international organizations and other stakeholders to promote respect for human rights;
- fight against corruption in its different forms, periodically revising the anti-corruption framework and strengthening our framework when necessary; and
- being transparent in paying taxes, while applying the principles of integrity and prudence. For further details on these areas, please see our Tax Strategy, Anti-Corruption Policy and Lending Criteria, which have been published on our website.

Furthermore, we see education as one of the most important cornerstones to keep the partnership of our industry with society at eye level. By promoting plans and actions that lead to improving economic and social rights, equal opportunities, diversity, non-discrimination and inclusion, we strive to help people to increase their knowledge and well-being. With a higher level of (financial) education and accessibility of education opportunities, 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. As a bank, it is important to us to support outstanding projects in the field of education.

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.

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.

Remuneration policy

The remuneration design ensures that management's remuneration is in line with the institution's social risk-related objectives by including ESG targets in the annual bonus assessment.

RISK MANAGEMENT

We have established clear standards. In our Supplier Code of Conduct, we have defined our supplier requirements for the procurement of goods and services. In the event that BAWAG changes these requirements in future, it expects its suppliers to accept and adhere to the appropriate changes.

Supplier Code of Conduct

- Adherence to local laws: to observe the laws of the respective applicable legal systems
- to refrain from all activities which can influence any decisions of authorities and public or government representatives, primarily cash allowances, gifts or other benefits to public servants are forbidden as far as they exceed the usual framework, even if such activity would seem to support the economic interest situation of BAWAG Group.
- employees do not accept any gifts or allowances exceeding € 20 per year in connection with their job. Invitations outside the usual business cooperation are also covered by this rule.
- Attention to human and constitutional rights, health and safety of employees
- to promote equality of chances and equal treatment of the suppliers' employees, without attention to the skin colour, race, nationality, social background, disability (if any), sexual orientation, political or religious conviction and gender or age.
- to respect the dignity, privacy and personal rights of every individual,
- to reject all unacceptable treatment of employees,
- not to tolerate child employment
- not to tolerate any behaviour (including gestures, verbal or physical contact) which would be sexual, threatening, abusive or exercising any sort of force,
- to care for adequate remuneration and to assure the legal minimum wages of the respective state,
- to keep to the maximum working hours legally agreed in the respective state,
- to take on responsibility for the health and safety of employees,
- to reduce risks and to implement optimal measures to prevent accidents or occupational diseases
- Environmental protection: to observe all legal regulations and international standards for the protection of the environment

- Supply chain: to promote in the best possible way the observance of this CoC by sub-suppliers and to observe the principles of non-discrimination on selecting suppliers and on cooperating with suppliers.
- Compliance with § 28 BWG (Austrian Banking Act) – Transactions with the Bank's affiliated parties

BAWAG Group has implemented a comprehensive process for identifying and monitoring activities exposures, and assets sensitive to social risks. BAWAG Group also identifies and monitors social risks that are currently non-material but have the potential to become financially material in the future. The Bank recognizes that social risks can emerge rapidly and unexpectedly, and therefore has implemented a proactive approach to identify and monitor such risks. In terms of sectors with enhanced social risk, BAWAG Group acknowledges that certain industries are more likely to face social risks that may be under public and political scrutiny. As such, the Bank applies additional due diligence and monitoring to these sectors to identify and mitigate potential social risks. The Bank recognizes the importance of integrating social risk management into its overall risk management framework to protect its reputation, ensure long-term sustainability and meet its obligations as a responsible corporate citizen. BAWAG Group has made a number of commitments to mitigate social risks, including the adoption of the United Nations Global Compact and the UN Women's Empowerment Program.

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.

QUALITATIVE INFORMATION ON GOVERNANCE RISK

GOVERNANCE

Environmental, social and governance (ESG) risk factors are considered in the risk management framework based on the ECB's Guide on climate-related and environmental risks published in November 2020, which outlines its supervisory expectations for how climate-related and environmental risks should be embedded in all relevant bank practices, including a bank's risk management framework, governance, risk appetite, business model and strategy, as well as its reporting and disclosures.

The Group has adopted five principles for a sustainable Group-wide risk culture, based on a full understanding of the risks it faces and how they are managed, taking into account its risk tolerance/appetite:

- Tone from the top
- Communication, accountability and escalation
- Incentives/Alignment of remuneration with risk profile
- Risk control internal control systems
- Sustainability (ESG)

Sustainability and ESG risk are embedded within BAWAG Group's robust governance framework and follow the conditions as laid out in the sections on environmental and social risk.

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. Further committees on management board level are described in the previous sections. Due to the increasing importance of ESG risks, a dedicated committee was also established at Supervisory Board level in 2021.

Stakeholder engagement and materiality process

Ten stakeholder groups were defined in 2018 as part of the materiality process through an analysis by the CSR team and external consultants. 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. 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 centre or during our General Meetings.

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.

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. In addition, in 2023, we performed a risk materiality assessment and focused on preparations for the regulatory changes under the Corporate Sustainability Reporting Directive (CSRD)

Table 16: Material topics (related to ESG)

Material topic	Impact, effectiveness, due diligence and stakeholder engagement
Economic success	… <u>positive impact:</u> 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. … <u>potential negative impact:</u> economic risks, negative effects on various stakeholders, loss of confidence among relevant stakeholders, declining share price and customer base, depletion of capital reserves. … <u>due diligence:</u> regular auditing, controlling. … <u>effectiveness of actions taken:</u> tracking of key metrics, mitigating changes in macroeconomic backdrop, maintaining a low risk profile, external performance rankings, benchmarkings, external audits, strong internal audit function … <u>engagement with stakeholders:</u> various feedback and interaction formats, with a main focus on investors, analysts, rating agencies, regulators, employees and customers
Ethics and integrity	... <u>positive impact:</u> 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 … <u>potential negative impact:</u> non-compliance with laws and requirements may result in a sustained loss of confidence and reputation. … <u>due diligence:</u> employee training, control systems … <u>effectiveness of actions taken:</u> 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 … <u>engagement with stakeholders:</u> various feedback loops with a broad range of internal (employees) and external (main focus: regulators) stakeholders.
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 provide 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

	… engagement with stakeholders: various feedback opportunities for customers.
Sustainability in core business	… positive impact: 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) … effectiveness of actions taken: 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 … potential negative impact: reputational risk, economic risk, climate change. … due diligence: product implementation process, screening of regulatory changes, internal review processes. … engagement with stakeholders: various feedback loops with a broad range of internal (e.g. sales employees and managers) and external stakeholders
Social responsibility and personal commitment	… positive impact: to promote civic engagement and the social commitment of employees … increased awareness of social issues … reduction of inequality and poverty … strengthening civil society … (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

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). …(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 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 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.

Code of Conduct

BAWAG Group’s Code of Conduct sets forth the understanding of banking and conduct ethics that BAWAG Group applies. It is important that employees internalize these rules and values. Therefore, corresponding training on this matter is conducted (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.

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 behaviour, 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.

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 other things, 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

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. 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 points of contact) 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 provisions 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.

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 2023.

CYBERSECURITY

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 customers, employees and other stakeholders in terms of confidentiality, integrity and availability. BAWAG Group has implemented a comprehensive set of security policies and controls 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 social media and collaboration tool usage) and comprehensively expanded. State-of-the-art technologies and services are used to achieve the expected high level of internal and external security. A set of state-of-the-art tools is deployed to detect and mitigate vulnerabilities. For detection, the experts utilize AI monitoring tools to identify anomalies across the entire technical estate. For mitigation, the experts are deploying an automated framework for quick resolution. 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 technical experts are executed by certified security experts – both in the CISO Office and in the Security Operations Center Team. A special security focus has been placed on the development, implementation, operation, use and maintenance of 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 Technical Risk Committee (TRC) and the Committee Fraud and Information Security (CFIS). The engagement between executives and technical experts in these forums facilitates accelerated decision making and execution. Information / cyber security trends and status is regularly reported to the Non-Financial Risk and ESG Committee.

For all internal systems, BAWAG Group performs ongoing vulnerability scans to identify inadequacies in the internal IT landscape. Detected vulnerabilities are dealt with in a timely manner according to their criticality. In addition BAWAG Group regularly performs penetration tests for all systems, especially for customer facing and 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 strengthen the security of the tested systems.

To validate our comprehensive cybersecurity approach, we use a renowned cybersecurity rating service, to check the security status of all our Internet connected systems and services. The rating reflects a strong cybersecurity posture of BAWAG Group (including all subsidiaries) 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 catalogue 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, via e-mail or letter.

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.

Risk control self-assessments (RCSA)
An important tool for the assessment and management of governance risks is the risk control self assessment (RCSA). This is an annual assessment of all risk relevant processes in connection with the associated risks. As described above all divisions and subsidiaries are involved in this process ensuring full coverage across the group. ESG has been integrated into the RCSA already in 2022 to ensure that environmental, social and governance risks related to our processes are identified accordingly.

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.

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.

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 13 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 in 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.

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 training courses, workshops as well as mentoring.

Social inclusion accounts at BAWAG: 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 6% of total current accounts are social inclusion accounts. Taking into account the allocation of social inclusion accounts, the current split is 60% for "New Chance" accounts, 40% Beihilfekonten (budget accounts) and <1% for customer payment accounts.

TAXES

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.

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:

BAWAG Group is a politically neutral organization and does not engage in party political campaigning or make party political donations. We believe that responsible corporate citizenship demands a strong commitment to a healthy and informed democracy through involvement of a broad range of different stakeholders. The financial services business is subject to extensive laws and regulations at international, national and local levels. Therefore, changes to such laws or legislations can significantly have an impact on how we operate, our revenues and our cost structure. Our Political Involvement Policy has been approved by the Management Board of BAWAG Group in accordance with our internal guidelines. We are committed to not using corporate funds for contributions to political candidates, political parties and/or political action committees. We do not use corporate funds to make independent political expenditures or electioneering communications and restrict trade associations and organizations to which we belong from using our membership fees for any such election-related activity. More broadly, we do not make any direct lobbying expenditures. By conducting business in the financial sector, we belong to a number of local trade associations, such as the Austrian Chamber of Commerce (Wirtschaftskammer Österreich) or the Austrian Banking Association (Bankenverband). These associations advocate on major public policy issues of importance to the entire banking sector and the communities served. Our membership with trade associations and related organizations gives us the opportunity to exchange ideas among a broad range of perspectives on key policy issues affecting our industry and to share our views with other stakeholders. Our participation as a member of these trade associations comes with the understanding that we may not always agree with the positions of an association or its other members. However, we are committed to voicing our concerns as appropriate through our leaders who interact with other members of these trade associations.

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.

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 2023, 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 dialogue 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, an all-employee surveys was carried out in Q4 2023.

RISK MANAGEMENT

Regarding our customers and counterparties, the assessment of governance with respect to ESG is an inherent part of the due diligence processes such as the product implementation process and the outsourcing assessment but also as part of the credit rating and loan application process. Details are outlined in the sections about qualitative information on environmental and social risks.

RISK OF MONEY LAUNDERING AND FINANCING OF TERRORISM

Article 435 (1) points (a)–(d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

Based on the business model of BAWAG Group focusing on retail, small business, corporate and public sector clients in developed markets of the DACH/NL region (Germany, Austria, Switzerland and the Netherlands), Western Europe and the United States, the overall risk of money laundering and terrorism financing is low.

Strategies and processes for the prevention of money laundering and countering the financing of terrorism (abbreviated as AML/CFT in the following paragraphs) have been approved by the Management Board. As required by law, a comprehensive risk analysis of specific money laundering risks and mitigants is regularly assessed and maintained.

Pertinent directives (summarized in a separate manual) and mandatory technical IT fields ensure compliance with all relevant regulations to prevent money laundering and terrorism financing under the Financial Market Money Laundering Act (FM-GwG) based on the 4th and 5th EU Anti-Money Laundering Directive (EC 849/2015 and EC 843/2018) and under the EU Regulation on information accompanying transfers of funds and repealing EC 847/2015. Furthermore, an internal control system ensures compliance with the measures, policies, controls and procedures implemented. Customer relationships and domestic and foreign transactions are automatically monitored along AML/CFT risk classifications, which follow the AML/CFT risk analysis. These customer, transaction and country screenings consider the High-Risk Country Regulation issued by delegated regulation of the European Commission and the relevant sanction guidelines of the UN, OFAC, EU, UK and the Oesterreichische Nationalbank (the Austrian National Bank).

Employees are regularly adequately trained (theoretically and practically in self-study programs and classroom trainings) to sensitize them to specific typologies suspected of money laundering or terrorism financing.

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The mandatory AML Officer is supported by a department leader and specialized employees. In his function as AML Officer, the head of the Anti-Money Laundering, Know Your Customer & Compliance division reports directly to the full Management Board. The organizational Anti-Money Laundering and Sanctions manual outlines the duties and responsibilities of the Anti-Money Laundering & Know Your Customer division.

The main competences of the AML Officer are:

- develop and maintain an ML/TF risk assessment framework for business-wide and individual ML/TF risk assessments
- ensure that adequate policies and procedures are put in place, kept up to date and implemented effectively on an ongoing basis
- further develop policies, controls and processes including (IT) systems to prevent money laundering and counter the financing of terrorism along regulatory developments
- define Group-level AML/CFT standards and ensure that local, entity-level policies and procedures comply with the AML/CFT legislation and regulations applicable to each entity of the Group individually, and are also aligned to the Group standards defined
- monitor whether the measures, policies, controls and procedures implemented by the credit or financial institution comply with the credit or financial institution's AML/CFT obligations via
  - comprehensive inspection and control rights (regular internal control system checks) and access to all systems
  - possibility for ad hoc audits at any time

- consult before a final decision is taken on onboarding new high-risk customers or maintaining business relationships with high-risk customers
- ensure the alerts handling in the course of the continuous monitoring
- ensure that knowledge or suspicion of ML/TF or of a person's connection with ML/TF are promptly reported to the FIU and block accounts
- assess specific training needs and ensure that adequate theoretical and practical training is provided to the persons exposed to different levels of ML/FT risks
- advise the management on measures to be taken to ensure compliance and report on an ongoing basis.

RISK MEASUREMENT SYSTEMS

In addition to the yearly overall risk analysis, suspicious ML/TF constellations are continuously analysed for new patterns to develop the AML/CFT systems. A Group-wide exchange of suspicious cases related to money laundering has been organized since 2017.

BAWAG Group operates an AML/CFT software system that classifies all customer relationships into AML/CFT risk classes (applying specific risk factors like product, domicile/residence, industry, nationality, payments behaviour etc.). Upon applying for a product, respective measures vary based on the assigned risk class (e.g. enhanced due diligence or increased monitoring for higher risk classes). The software differentiates between standard, medium and high AML/CFT risk classes (such as politically exposed persons). New patterns of behaviour or findings are translated into new transaction monitoring scenarios, another module of the AML/CFT software. The third module of the applied AML/CFT software ensures the monitoring of customers against PEP (politically exposed persons) and relevant sanctions lists.

Regarding sanction screening, the applied software ensures transaction, country and sanction screenings against relevant lists before transactions are executed.

RISK REPORTING SYSTEMS

The AML Officer reports to the full Management Board and the Audit and Compliance Committee on a quarterly basis. Furthermore, the AML annual report has to be acknowledged by the Supervisory Board. Since 2017, a Non-Financial Risk and ESG Committee has been established on the Management Board level, which meets on a regular basis.

RISK HEDGING AND MITIGATION

BAWAG Group's overall AML/CFT strategy is subject to at least an annual review and re-approval of the Management Board.

Comprehensive guidelines are summarized in the Anti-Money Laundering and Sanctions manual, and a control system is in place for the opening and monitoring of accounts and for one-time transactions where mandatory identification duties apply. Furthermore, mandatory IT fields ensure that the required data is recorded for account opening processes and specific transactions (e.g. verification of source of wealth and/or funds, transactions requiring an ID to be shown).

Additionally, the AML Officer has established a monthly internal control system, which checks compliance of sample sets with the internal account opening and transaction policies. Any errors are redirected for correction, retraining or imply other effective measures to the person in charge.

In addition to the comprehensive Bank risk analysis that undergoes an evaluation once a year, BAWAG Group regularly analyses suspicious cases for new behaviour patterns, which lead to software updates or other specific actions.

RESIDUAL RISK FROM TECHNIQUES OF CREDIT RISK MITIGATION

Article 435 (1) points (a)–(d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

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

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

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

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

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

STRUCTURE AND ORGANIZATION OF THE RELEVANT RISK MANAGEMENT FUNCTIONS

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

RISK HEDGING, RISK MITIGATION AND RISK MEASUREMENT SYSTEMS

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

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

MACROECONOMIC RISKS

Article 435 (1) points (a)–(d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

Macroeconomic risk considers potential losses that are induced by exposures to macroeconomic risk factors, such as a significant deterioration of the real GDP growth rate, a significant increase of the unemployment rate or a significant change of the inflation rate.

Macroeconomic risks have myriad possible consequences. Unfavourable overall economic developments could result in negative repercussions for BAWAG Group such as a negative change in market prices, increased default rates, less demand for products, negative trends in the value of participations, falling savings rates (tight liquidity) and so forth.

Risk is identified during stress testing conducted to determine the type and scope of the required stress tests and to define the macroeconomic scenarios and the associated risk parameters. Stress tests are conducted periodically and fall under the responsibility of the individual specialized units of the risk organization.

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

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

RISK MEASUREMENT, RISK REPORTING SYSTEM AND RISK HEDGING OR MITIGATION

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

Within the annual Risk Self-Assessment process, macroeconomic risk is assessed and quantified. In general, macroeconomic factors are considered within the quantification of the individual risk types using validated models. Nevertheless, the Group also holds a capital buffer at the Management Board level for acquisitions and unidentified risks – a potential residual risk stemming from a negative macroeconomic development for the Group is also covered by this buffer.

Furthermore, the Group controls the impact of macroeconomic changes within the reporting of stress test results as well as during the determination of any necessary actions. Possible actions for subsequent control range from diversification and the reduction of risk positions to an increase in internal capital. Actions can also be of an organizational nature, for instance an in-depth analysis of risk drivers or also the inclusion of additional aspects in the stress tests. The actions are approved by the decision-makers and carried out by the responsible organizational units.

Stress test results and any necessary actions are discussed in the dedicated ICAAP & Stress Test Committee and then presented for approval to the ERM. In addition, the Group has implemented the Macroeconomic Scenario Committee to identify appropriate scenarios for each stress test exercise and ICAAP perspectives.

PARTICIPATIONS NOT HELD IN THE TRADING BOOK

OBJECTIVES AND PRINCIPLES FOR THE MANAGEMENT OF PARTICIPATIONS

Article 435 (1) point (a)–(d) CRR

Strategies and processes

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

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

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

BAWAG Group generally pursues the goal of achieving appropriate and lasting profitability, taking any risk mitigation into account. Any major change in the participation portfolio therefore requires the approval of the Management Board.

Structure and organization of relevant risk management function

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

Risk measurement systems

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

An impairment test for participations must be carried out annually and reviewed by Credit Risk Management. The purpose of the impairment test is to determine the recoverability of the participations and to identify hidden reserves in the participation portfolio. Impairments are recognized in the financial statements by Accounting.

Subsequent risk control is represented by the assessment and quantification of participation risk (non-consolidated participations according to IFRS) within the annual Risk Self-Assessment process, using a simplified VaR/LGD model and defining a constant buffer for the risk within the ICAAP framework.

Risk reporting systems

Participation risk is continuously monitored by the respective risk unit. Every participation is assigned an internal rating at least annually. Acquisitions, disposals and changes in shareholdings are recorded in reports distributed by Corporate Affairs (HAC). Additionally, there are quarterly impairment tests for all non-consolidated participations in order to establish book gains and losses which are the main risk drivers within participation risk.

Risk hedging and mitigation

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

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

ACCOUNTING AND VALUATION METHODS

Article 447 point (a) CRR

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

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

Item 1 in the notes to the consolidated annual report contains details on accounting and valuation methods.

SECURITIZATIONS

DISCLOSURE OF EXPOSURE TO SECURITIZATION POSITIONS

Article 449 points (a), (b) CRR

All securitization positions of the Group are assigned to the banking book. The portfolio includes no re-securitization positions. Based on the characteristics of the individual positions, all securitization positions are classified as non-STS. As of 31 December 2023, the Group has three synthetic securitization transactions – “BAWAG PSK Mortgages 2022-1,” “start:bspk AT Mortgages 2022-1” and “BAWAG Auto Leases 2023-1” – outstanding in which it acted as the originator.

The synthetic transactions “BAWAG PSK Mortgages 2022-1” and “start:bspk AT Mortgages 2022-1” are split into a senior and junior tranche. The senior tranches and a minimum of 5% of each reference obligation are retained, while the credit risk of the junior tranches is guaranteed by insurance companies. In addition, the transactions include a synthetic excess spread in the amount of the expected loss of the portfolio. The amortization of the senior and junior tranches is on a pro-rata basis, switching to sequential amortization in the event of a subordination. Losses are first allocated to the excess spread and then to the tranches in reverse order of seniority. Both transactions have a final legal maturity on 31 December 2038 and include German and Austrian mortgage loans.

The synthetic transaction “BAWAG Auto Leases 2023-1” is split into a senior, mezzanine and first loss tranche. The senior tranche, the first loss tranche and a minimum of 5% of each reference obligation are retained, while the credit risk of the mezzanine tranche is guaranteed by insurance companies. In addition, the transaction includes a synthetic excess spread in the amount of the expected loss of the portfolio. The amortization of the senior and mezzanine tranches is on a pro-rata basis, switching to sequential amortization in the event of a subordination, with the first loss tranche being subject to sequential amortization from the outset. Losses are first allocated to the excess spread and then to the tranches in reverse order of seniority. The transaction has a final legal maturity on 31 December 2037 and includes Austrian auto leases.

The significant risk transfer pursuant to Article 245 (2) (a) Regulation (EU) 2017/2401 contributes to regulatory capital relief.

The investor securitization portfolio consists of collateralized loan obligations (CLOs) with risks mainly from Western and Northern European and US companies, as well as of private securitizations.

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

Risk reporting also consists of quarterly risk reports prepared by Risk Modelling (RM) and submitted to the Credit Approval Committee (CAC) for acknowledgement.

Quarterly reports consist of an overview of the total CLO portfolio in which key risk parameters for individual positions are summarized. This includes the seniority, weighted average life (WAL), weighted average maturity (WAM), attachment and detachment points, subordination level, expected recovery value and so forth. Moreover, RM provides an overview of key parameters in comparison to the previous quarter, as well as the analysis of the underlying collateral. In addition, stress testing of individual CLO positions is performed as part of the quarterly reports.

The private securitization portfolio consists of investments in structured credit portfolios with underlying obligors in the US and UK, with predominantly residential transition loans (RTLs), as well as second lien mortgages amongst other assets. The portfolio consists entirely of senior tranches with adequate subordination.

The Group has a Retail Asset Linked Lending Standards policy which defines the criteria for extending credit to an entity and contains a specific focus on the due diligence requirements for a securitization structure as well as prudent underwriting of underlying exposures. The policy outlines the documentation/policies to be reviewed and also dictates data availability requirements to ensure appropriate ongoing monitoring of the credit quality and performance of underlying exposures. Pertinent items reviewed and analysis conducted are documented in the Credit Approval Committee (CAC) memo that is submitted for approval.

Monitoring of the underlying portfolios is carried out on a regular basis, tracking key metrics as applicable to each portfolio. These include, but are not limited to, attachment point and limit utilization, loan to value (LTV) and loan to after repair value (LT-ARV) ratios, credit score distributions, geographical spread and market/HPI trends in geographies of interest, as well as monitoring of the relevant covenants for each underlying portfolio. Moreover, the monitoring also includes the stress testing of individual positions, which is carried out on a regular basis.

Article 449 point (c)

Risk-weighted exposure amounts for non-STS securitization are calculated in accordance with Article 254 (1) CRR, where BAWAG Group has chosen to apply the preference of SEC-ERBA (Art. 263 CRR) over SEC-SA (Art. 261 CRR) in line with Article 254 (3) CRR for securitization with external ratings.

Positions with no external rating from Moody's, Standard & Poor's or Fitch are calculated according to the SEC-SA approach (Art. 261 CRR) along with the three synthetic securitizations originated in 2022/2023. Where a securitization position is assigned a risk weight of 1250%, the exposure value is deducted from CET1 in accordance with Article 36 (1) point (k) (ii). The excess spreads and first loss tranches of the synthetic securitization transactions are also deducted from the CET1 if they exceed the value adjustments of the underlying loans.

Article 449 point (d)

The Group does not provide any securitization-related services, such as advisory, asset servicing or management services. There are no SSPEs included in the regulatory scope of consolidation.

Article 449 point (e)

The Group does not provide support to other legal entities. Therefore, this point is considered to be irrelevant.

Article 449 point (f)

Currently no investments by affiliated institutions.

Article 449 point (g)

The securitized assets of the three synthetic securitization transactions are on-balance sheet. No transfer or sale of the securitized assets took place and therefore no gains or losses on sales occurred.

The only impact on accounting from these transactions is on the profit and loss statement via the ongoing payment of the guarantee premium to the investor and in the case of losses to the junior tranches, the receipt of guarantee payments from the investor.

Assets awaiting securitization are loans which are valued at amortized cost and are not recorded in the trading book or trading. On the balance sheet, loans are disclosed under the line item financial assets measured at amortized cost – Customers.

Article 449 point (h)

Basically, the estimated ratings of Moody's, Standard & Poor's and Fitch are utilized for investment deliberations, regardless of the category of securitized exposure.

Article 449 point (i)

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

LEVERAGE RATIO

Article 451 CRR

The leverage ratio according to Article 429 CRR is calculated for regulatory purposes and reported to the regulators on a quarterly basis. As of 30 June 2021, the calculation was adapted to the new requirements of CRR2, which caused only minor changes in the quote.

Regulation (EU) 2019/876 (Capital Requirements Regulation – CRR2) amending Regulation (EU) No 575/2013, with the application date 28 June 2021, sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation (Article 92 [d]).

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

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

REMUNERATION POLICY DISCLOSURE

Article 450 (1) points (a)–(f) CRR

BAWAG Group has established a Remuneration Committee, which is set up as a Supervisory Board committee. The Remuneration Committee approves the Remuneration Policy of BAWAG Group and reviews the applied remuneration practices as well as the remuneration-related incentive structure. It is responsible for the determination of terms and conditions of contracts of Management Board members and the target determination and granting of bonuses for each Management Board member.

The Remuneration Committee approves the aggregate bonus pool for BAWAG Group and reviews the annual bonus allocation on a statistical basis. The Remuneration Committee consists of the chairman of the Supervisory Board, who also chairs the Remuneration Committee, and five other Supervisory Board members including two members of the Works Council. One member is an expert on remuneration and one is also a member of the Risk and Credit Committee. In 2023, five meetings of the Remuneration Committee were held, the first two of which were held in the previous form as the Nomination and Remuneration Committee. The Remuneration Policy applies to the members of the Management Board and the employees of BAWAG Group and is compliant with the provisions and principles of Directive 2013/36/EU (CRD IV) as amended by Directive 2019/878/EU (CRD V), the EBA guidelines on sound remuneration policies, the FMA circular on principles of remuneration policies and practices updated in June 2022 and the Austrian Banking Act.

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

For employees whose activities have a material influence on the risk profile (identified staff), the Remuneration Policy provides for effective risk management. The assessment in this regard is carried out in accordance with the qualitative and quantitative criteria set forth in the applicable regulatory framework. Individual quantitative and qualitative targets for identified staff are agreed between the respective employee and the relevant manager.

In accordance with the above-mentioned legal framework, identified staff receive the bonus distributed over a period of five years and at least 50% in phantom shares (based on shares of BAWAG Group AG), provided a certain amount of the variable remuneration is reached. The high proportion of (phantom) shares in the variable compensation for identified staff leads to a high level of alignment between the interests of the management and the shareholders focused on growth of the corporate value. Bonus awards granted to non-identified staff are deferred, provided the bonus award granted exceeds a certain amount. For risk and control function holders who are classified as identified staff, the process of target setting and target assessment differs from that of other identified staff, as KPIs or performance targets for the Group shall not be used. The targets have to be derived from the risk strategy and governance of BAWAG Group and the business unit, defined by the Chief Risk Officer together with responsible division heads. The Management by Objectives process (line manager

determines targets with the employee personally) serves as a quality check of the content of the targets. However, the compensation of staff in risk and control functions is decided regardless of the success of the business units they control. Malus and claw back provisions are in place in accordance with the regulatory framework.

In reviewing and deciding on any awards of variable compensation to members of the Management Board and employees, the Remuneration Committee takes into account the market situation and market trends, the appropriateness of bonus payments, the risk trends and the strengthening of the equity base.

The Remuneration Policy takes the statutory provisions into account as follows:

- To ensure risk adequacy, the variable remuneration must not incentivize entering into inappropriate risks.

- To ensure sustainability, success is determined based on a longer-term assessment. Bonus awards paid to identified staff consist of 50% cash and 50% phantom shares, and 40% to 60% of the bonus is paid up front, provided a certain bonus amount is reached. The remaining portion of a bonus award is deferred and vests over a period of five years.
- The appropriateness and market adequacy of remuneration are ensured, and a balanced relationship between fixed and variable components is achieved.
- The variable remuneration is determined on the basis of the individual's success as well as on the success of the respective organizational unit and BAWAG P.S.K. (other conditions apply for internal control functions).
- To ensure a gender-neutral remuneration scheme, BAWAG Group ensures an appropriate process in relation to the gender pay gap and will monitor its development over time.
- The results of internal and external audits, on-site reviews by regulators and the overall fulfillment of compliance requirements shall be used as a further indicator for individual bonus allocation.

Further information on remuneration-related topics is available in BAWAG Group's consolidated annual report as well as the remuneration report.

APPENDIX (QUALITATIVE DISCLOSURE): BAWAG GROUP RISK REPORT OVERVIEW

Topic	Details	Qualitative disclosure, pages	Consolidated annual report, pages	Other publications
General principles	Scope of consolidation and consolidation methods	10–12	71–73	
Risk management	Group-wide risk management	13–19	48–50, 194–201	
	Internal capital adequacy assessment process and Group-wide stress test	19–24	201–204	
	Capital allocation and limitation at total Bank level	24	21–22, 35–37	
Credit risk	Objectives and principles	26–29	204–210	
	Counterparty default risk – Treasury	30–32	78–86	
	Credit risk mitigation	33–35	204–205, 208–209, 219	
	Value adjustments and reserves	35–37	219–228, 210	
	Rating systems and rating processes	37–44	204, 207	
Market risk	Objectives and principles	45-46	202, 228	
	Internal models for limitation of market risk	47	229–233	
	Interest rate risk from positions not held in the trading book	47–52	229–233	
Operational risk	Strategy, processes and management	53	236–237	
	Structure and organization	53	236	
	Risk measurement systems	54–56	202, 237	
	Risk hedging and mitigation	56	236–237	
	Own fund requirements	56	237	
Other risks	Liquidity risk	57–62	202, 233–235	
	Concentration risk	63–64	206–208, 211–217	
	ESG risk	65–106	237-238	
	Risk of money laundering and financing of terrorism	107–109	284–285	
	Residual risk from techniques of credit risk mitigation	110	204	
	Macroeconomic risks	111	221-222	
Additionals	Participations not held in the trading book	112-113	86, 239	
	Securitizations	114-116	193	
	Leverage ratio	117	5, 37, 148 –149	
	Remuneration policy disclosure	118-119	169-170, 265-268	
	Company information		1–8, 10–22	BAWAG Group website
	BAWAG Group on the stock market		23–26	BAWAG Group website
	Funding		21, 23, 35, 233–235	BAWAG Group website
	Corporate governance		24, 259–266	BAWAG Group website

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