HALF-YEAR FINANCIAL REPORT AS OF 30 June 2021

KEY FIGURES

Profit or loss statement (in € million)	Q2 2021	Q2 2020	Change (%)	Jan-Jun 2021	Jan-Jun 2020	Change (%)
Net interest income	231.6	227.5	1.8	461.2	447.3	3.1
Net fee and commission income	70.1	55.8	25.6	137.8	127.7	7.9
Core revenues	**301.7**	**283.3**	**6.5**	**599.0**	**575.0**	**4.2**
Other income[1]	0.8	1.1	(27.3)	4.6	6.4	(28.1)
Operating income	**302.5**	**284.4**	**6.4**	**603.6**	**581.4**	**3.8**
Operating expenses	**(121.2)**	**(124.7)**	**(2.8)**	**(243.0)**	**(249.6)**	**(2.6)**
Pre-provision profit	**181.3**	**159.7**	**13.5**	**360.6**	**331.8**	**8.7**
Regulatory charges	(2.0)	(2.5)	(20.0)	(56.2)	(38.8)	44.8
Total risk costs	(23.8)	(74.6)	(68.1)	(53.1)	(129.6)	(59.0)
Profit before tax	**156.2**	**81.0**	**92.8**	**252.7**	**162.9**	**55.1**
Income taxes	(37.0)	(19.4)	90.7	(60.0)	(39.0)	53.8
Net profit	**119.1**	**61.3**	**94.3**	**192.8**	**123.5**	**56.1**

Share data	Q2 2021	Q2 2020	Change (%)	Jan-Jun 2021	Jan-Jun 2020	Change (%)
Pre-tax earnings per share (in €)[2]	1.75	0.92	91.0	2.84	1.85	(5.0)
After-tax earnings per share (in €)[2]	1.34	0.70	92.1	2.17	1.40	(4.5)
Book value per share (in €)	39.43	38.22	3.2	39.43	38.22	3.2
Tangible book value per share (in €)	33.38	31.91	4.6	33.38	31.91	4.6
Shares outstanding at the end of the period	88,855,047	87,937,130	1.0	88,855,047	87,937,130	1.0

Performance ratios (figures annualized)	Q2 2021	Q2 2020	Change (pts)	Jan-Jun 2021	Jan-Jun 2020	Change (pts)
Return on common equity	13.7%	7.4%	6.3	11.1%	7.4%	3.7
Return on tangible common equity	**16.3%**	**9.0%**	**7.3**	**13.2%**	**8.9%**	**4.3**
Net interest margin	2.28%	2.26%	0.02	2.28%	2.29%	(0.01)
Cost-income ratio	40.1%	43.8%	(3.7)	40.3%	42.9%	(2.6)
Risk costs / interest-bearing assets	0.23%	0.74%	(0.51)	0.26%	0.66%	(0.40)

Statement of financial position (in € million)	Jun 2021	Dec 2020	Change (%)	Jun 2020	Change (%)
Total assets	54,132	53,122	1.9	51,271	5.6
Interest-bearing assets	40,815	40,404	1.0	40,498	0.8
Customer loans	32,371	32,004	1.1	31,372	3.2
Customer deposits and own issues	40,183	38,890	3.3	35,857	12.1
Common equity[3]	3,504	3,419	2.5	3,361	4.2
Tangible common equity[3]	2,966	2,867	3.4	2,806	5.7
Risk-weighted assets	20,142	20,073	0.3	20,751	(2.9)

Balance sheet ratios	Jun 2021	Dec 2020	Change (pts)	Jun 2020	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**14.4%**	**14.0%**	**0.4**	**13.4%**	**1.0**
Total capital ratio (fully loaded)	20.0%	19.6%	0.4	17.0%	3.0
Leverage ratio (fully loaded)	6.1%	6.0%	0.1	5.9%	0.2
Liquidity coverage ratio (LCR)	265%	231%	34	209%	56
NPL ratio	1.5%	1.5%	0.0	1.5%	0.0
NPE ratio	1.6%	1.6%	0.0	1.7%	(0.1)

1) The term "Other Income" includes gains and losses on financial instruments and other operating income and expenses
2) Before deduction of AT1 coupon.
3) Excluding AT1 capital and dividends
Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 97-99.
Prior-year figures were adjusted. For details, please refer to the Notes section Restatement in accordance with IAS 8.41.

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KEY HIGHLIGHTS

FINANCIALS

€ 193 million

Net profit
and € 361 million
pre-provision profit

13.2%

Return on tangible common equity

40.3%

Cost-income ratio

CAPITAL MANAGEMENT

14.4%

CET1 ratio
post dividend accruals;
17.0% pre dividend deduction

€ 40 million

Dividend paid on 12 March 2021 in line with ECB recommendation from December 2020

€ 420 million

remaining dividend for 2019/2020 profits will be proposed for distribution to Annual General Meeting on 27 August 2021 … dividend payout in early October

"We started the first half of the year with a strong set of operating results delivering net profit of € 193 million, RoTCE of 13.2% and cost-income ratio of 40.3%. Although we've experienced rolling and partial lockdowns in our core markets during the first few months of 2021, we expect the gradual normalization of economic activity to carry into the second half of the year and have increased our targets to RoTCE ~15% and CIR ~40% for the full year.

However, despite the improvement in the overall macroeconomic environment from last year and the continued positive developments across our customer base, we decided not to release any credit reserves. In terms of operational developments, we continue to reposition our business and adapt to a post-COVID-19 world. We will focus on the things that we can control, be proactive and decisive, and not be deterred by the changes ahead as we continue to transform our business and deliver sustainable profitable growth.

Following the most recent communication of the European Central Bank lifting the recommended dividend ban from last year, we decided to bring forward our Annual General Meeting as well as the Investor Day, where we will communicate our new targets and 4-year Plan through 2025," commented Chief Executive Officer Anas Abuzaakouk.

Half-Year Group Management Report

HIGHLIGHTS

Strong operating results in the first half 2021 … Environment normalizing

Our performance in the first half 2021 was strong, delivering net profit of € 193 million, EPS of € 2.17, an RoTCE of 13.2% and a cost-income ratio of 40.3%.

Proposing € 420 million dividend distribution in Q3 2021

Following the removal of the recommended dividend ban by the European Central Bank on 23 July 2021, we will propose to the Annual General Meeting on 27 August 2021 the remaining € 420 million dividend for distribution from 2019/2020 profits (dividend payout in early October).

Updated 2021 targets

RoTCE of ~15% and CIR of ~40% from prior targets of RoTCE >13% and CIR <41%.

M&A: Signed new deals

In February, BAWAG Group signed an agreement to acquire DEPFA BANK plc, and its subsidiary DEPFA ACS Bank. Additionally, BAWAG Group signed an agreement to purchase Hello bank! Austria, an online retail brokerage business, in July. The closing of the transactions is expected in the second half 2021 and Q4 '21/ Q1' 22, respectively.

Additions to Management and Supervisory Board

In June 2021, the Supervisory Board decided to appoint Guido Jestädt, previously General Counsel, to the Management Board in the newly created role of Chief Administrative Officer, effective as of 1 July 2021.

The Supervisory Board has also nominated Gerrit Schneider and Tamara Kapeller to join the Supervisory Board, which is to be formally resolved by the AGM on 27 August 2021.

Further integrating ESG

We defined lending criteria for industries particularly exposed to ESG-factors, which we will restrict lending to or exclude altogether.

Furthermore, we introduced a female target quota of 33% in the Supervisory Board and 33% across the senior leadership team (including the Managing Board) by 2027.

ECONOMIC DEVELOPMENTS

Macro trends

Since early 2020, the macroeconomic environment, capital markets and consequently also the banking industry has been dominated by the effects of COVID-19. Since the onset of the pandemic, governments around the globe implemented measures to counter the COVID-19-pandemic, which has resulted in subdued social and economic activity in various regions across the world that have had adverse effects on global economic growth during 2020. Central banks, including the European Central Bank, the United States Federal Reserve and the Bank of England have continued to maintain the expansionary monetary policy to counter the market impacts stemming from the pandemic. Additionally, in 2020 various governments implemented stimulus measures of unprecedented size to support the hardest hit sectors of their economies, which partially expired during the first six months 2021.

In the first half 2021, the roll out of several highly effective vaccines has significantly altered the economic outlook. In Austria and Germany, the manufacturing sector is experiencing a pronounced recovery on the back of the revival of international trade. However, the lockdown during Q1 2021 and various safety measures during the first six months of 2021, still weighed on tourism, hospitality services and retail trade. The government-funded short-time work initiative with close to full-time equivalent compensation for sectors that will continue to be burdened by the effects of the pandemic was prolonged until mid-2022 in Austria.

The gradual normalization of economic activity and the brighter outlook resulted in an increase in inflation expectations and higher yield levels for longer tenors. Shorter tenors and money market rates remain anchored at the extraordinary low key interest rates. While members of the United States Federal Reserve are cautiously indicating potential first interest rate hikes as soon as 2023, the European Central Bank (ECB) is emphasizing the need for a continuation of the low interest rate environment. Several expansionary monetary policy measures introduced by the ECB to counter the effects of the pandemic (e.g. favorable TLTRO terms), however, will end in June 2022.

Market developments[1)]

While loan demand from private households for consumer loans on the Austrian lending market was still subdued, the brighter economic outlook, a preference for more space and the low interest rate environment has resulted in high loan demand for housing. Deposits from Austrian households have increased steadily during the COVID-19 pandemic.

Loan demand in the DACH/NL region generally picked up in the second quarter 2021. Increasing consumer confidence, improved housing market prospects and increased spending on durable goods supported loan demand from households (housing loans and consumer loans) while loan demand from corporations was mainly driven by low interest rates as well as financing needs for fixed investments and inventories. Looking at the broader Western European region, trends are similar to the DACH/NL region with loan demand from corporations being more muted.

Outlook[2)]

The unprecedented crisis is causing a high degree of uncertainty with regards to the economic outlook. However, the scenarios of major forecasting institutions call for a normalization of economic activity and a significant economic recovery in 2021 and 2022. In Austria, GDP is expected to grow by 4.0% in 2021 and by 5.0% in 2022. Private investment is expected to return to pre-COVID levels already in 2021, private consumption and GDP as a whole will likely return to pre-COVID levels in 2022. In Germany, domestic demand is expected to drive the economic recovery with GDP growing by 3.7% in 2021 and by 5.2% in 2022. In the Netherlands GDP is expected to grow by 3.0% in 2021 and by 3.7% in 2022 while economic growth in Switzerland is projected at 4.0% in 2021 and at 2.8% in 2022.

1) Source: European Central Bank (ECB)
2) Source: Economic forecasts for Austria by Austrian Institute of Economic Research (WIFO), for Germany by Deutsche Bundesbank, for the Netherlands by De Nederlandsche Bank and for Switzerland by KOF Economic Institute

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	Q2 2021	Q2 2020	Change (%)	Jan-Jun 2021	Jan-Jun 2020	Change (%)
Interest income	285.5	275.0	3.8	564.1	559.0	0.9
Interest expense	(56.0)	(49.7)	12.7	(106.3)	(113.9)	(6.7)
Dividend income	2.1	2.2	(4.5)	3.4	2.2	54.5
Net interest income	**231.6**	**227.5**	**1.8**	**461.2**	**447.3**	**3.1**
Fee and commission income	86.4	73.2	18.0	172.0	165.3	4.1
Fee and commission expenses	(16.3)	(17.4)	(6.3)	(34.2)	(37.6)	(9.0)
Net fee and commission income	**70.1**	**55.8**	**25.6**	**137.8**	**127.7**	**7.9**
Core revenues	**301.7**	**283.3**	**6.5**	**599.0**	**575.0**	**4.2**
Gains and losses on financial instruments and other operating income and expenses[1)]	0.8	1.1	(27.3)	4.6	6.4	(28.1)
Operating income	**302.5**	**284.4**	**6.4**	**603.6**	**581.4**	**3.8**
Operating expenses[1)]	**(121.2)**	**(124.7)**	**(2.8)**	**(243.0)**	**(249.6)**	**(2.6)**
Pre-provision profit	**181.3**	**159.7**	**13.5**	**360.6**	**331.8**	**8.7**
Regulatory charges	(2.0)	(2.5)	(20.0)	(56.2)	(38.8)	44.8
Operating profit	**179.3**	**157.2**	**14.1**	**304.4**	**292.8**	**4.0**
Total risk costs	(23.8)	(74.6)	(68.1)	(53.1)	(129.6)	(59.0)
Share of the profit or loss of associates accounted for using the equity method	0.7	(1.6)	–	1.4	(0.3)	–
Profit before tax	**156.2**	**81.0**	**92.8**	**252.7**	**162.9**	**55.1**
Income taxes	(37.0)	(19.4)	90.7	(60.0)	(39.0)	53.8
Profit after tax	**119.2**	**61.6**	**93.5**	**192.7**	**123.9**	**55.5**
Non-controlling interests	(0.1)	(0.3)	(66.7)	0.1	(0.3)	–
Net profit	**119.1**	**61.3**	**94.3**	**192.8**	**123.5**	**56.1**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 53.5 million for the first half 2021. The item Operating expenses includes regulatory charges in the amount of € 2.7 million for the first half 2021 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

Profit after tax increased by € 68.8 million, or 55.5%, to € 192.7 million in the first half 2021. The underlying operating performance of the business remained strong during the first half 2021, generating pre-provision profit of € 360.6 million. Total risk costs returned to more normalized levels of € 53.1 million with no reserves being released and management overlay being at € 70.1 million.

Net interest income increased by € 13.9 million, or 3.1%, to € 461.2 million in the first half 2021 resulting from higher interest-bearing assets and improved product mix.

Net fee and commission income increased by € 10.1 million, or 7.9%, compared to the first half 2020, still impacted by the COVID-19 restrictions, showing ongoing recovery in the second quarter 2021.

Gains and losses on financial instruments and other operating income and expenses decreased by € 1.8 million to € 4.6 million in the first half 2021 driven by lower gains on financial instruments.

Operating expenses decreased by 2.6% to € 243.0 million in the first half 2021 as a result of ongoing efficiency measures.

Regulatory charges of € 56.2 million, up 44.8% versus prior year, due to the additional deposit insurance charge following the Commerzialbank fraud in Austria in 2020 as well as increased deposits.

Total risk costs were € 53.1 million in the first half 2021, a decrease of € 76.5 million, or 59% compared to the previous year, since 2020 risk costs included an additional reserve of approximately € 65 million which were taken to address COVID-19-related effects. Payment deferrals came down further during the first half 2021 to 0.3% in the Retail & SME business (December 2020: 1.2%) and to 0.1% in the Corporates & Public business (December 2020: 0.2%). Despite the improved macroeconomic environment and continued positive developments across our customer base, we did not release any reserves and expect a continued normalization of risk costs throughout the year.

Total assets

in € million	Jun 2021	Dec 2020	Change (%)	Jun 2020	Change (%)
Cash reserves	1,060	1,032	2.7	843	25.7
Financial assets					
Held for trading	284	441	(35.6)	375	(24.3)
Fair value through profit or loss	559	693	(19.3)	811	(31.1)
Fair value through OCI	4,384	4,343	0.9	4,883	(10.2)
At amortized cost	46,375	44,634	3.9	42,385	9.4
Customers	32,371	32,004	1.1	31,372	3.2
Debt instruments	1,960	2,741	(28.5)	2,750	(28.7)
Credit institutions	12,044	9,889	21.8	8,263	45.8
Valuation adjustment on interest rate risk hedged portfolios	(58)	24	–	17	–
Hedging derivatives	237	405	(41.5)	423	(44.0)
Tangible non-current assets	378	474	(20.3)	501	(24.6)
Intangible non-current assets	539	552	(2.4)	555	(2.9)
Tax assets for current taxes	8	9	(11.1)	13	(38.5)
Tax assets for deferred taxes	5	9	(44.4)	7	(28.6)
Other assets	288	370	(22.2)	260	10.8
Non-current assets held for sale	73	135	(45.9)	198	>-100%
Total assets	**54,132**	**53,122**	**1.9**	**51,271**	**5.6**

The **cash reserves** remained fairly stable at € 1.06 billion in the first half 2021.

The line item **at amortized cost** increased by € 1.7 billion, or 3.9%, compared to year-end 2020 and stood at € 46.4 billion as of 30 June 2021. This primarily reflects higher volumes at central banks impacted by the TLTRO III drawdown. The customer volumes increased by 1.1% with a strong performance in retail housing loans. The decrease of debt instruments related to maturities of investment in high-quality securities.

Non-current assets held for sale decreased by € 62.0 million to € 73.0 million as of 30 June 2021 compared to year-end 2020, due to the successful sale of properties in Germany. For the remaining properties, the completion of the sales process within the second half of the current financial year is considered highly probable.

Total liabilities and equity

in € million	Jun 2021	Dec 2020	Change (%)	Jun 2020	Change (%)
Total liabilities	**49,638**	**48,768**	**1.8**	**47,317**	**4.9**
Financial liabilities					
Fair value through profit or loss	191	468	(59.2)	651	(70.7)
Held for trading	237	422	(43.8)	355	(33.2)
At amortized cost	47,485	45,944	3.4	43,186	10.0
Customers	33,013	32,265	2.3	29,930	10.3
Issued securities	6,979	6,157	13.4	5,277	32.3
Credit institutions	7,493	7,522	(0.4)	7,978	(6.1)
Financial liabilities associated with transferred assets	0	97	>-100	918	>-100
Valuation adjustment on interest rate risk hedged portfolios	262	358	(26.8)	387	(32.3)
Hedging derivatives	90	62	45.2	61	47.5
Provisions	398	425	(6.4)	457	(12.9)
Tax liabilities for current taxes	89	45	97.8	44	>100
Tax liabilities for deferred taxes	116	110	5.5	76	52.6
Other obligations	770	837	(8.0)	1,183	(34.9)
Total equity	**4,494**	**4,354**	**3.2**	**3,954**	**13.7**
Common equity	4,019	3,879	3.6	3,652	10.0
AT1 capital	471	471	–	297	58.6
Non-controlling interests	4	4	–	4	0.0
Total liabilities and equity	**54,132**	**53,122**	**1.9**	**51,271**	**5.6**

Financial liabilities at amortized cost increased by € 1.54 billion, or 3.4%, to € 47.49 billion as of 30 June 2021 compared to year-end 2020. We issued 2 mortgage covered bonds in the first half of 2021 with a total volume of € 1.0 billion. Additionally, our customer deposits increased by 2.3% in 2021.

Total equity including Additional Tier 1 capital stood at € 4.49 billion as of 30 June 2021. Earmarked dividends of € 420 million for 2019/2020 profits and the dividend accrual for the first half of 2021 of € 95 million based on our dividend policy are not deducted. On 23 July 2021, the European Central Bank lifted the recommended dividend ban from last year. Therefore, we will propose the remaining € 420 million dividends for distribution from 2019/2020 profits to the Annual General Meeting on 27 August 2021.

CAPITAL AND LIQUIDITY POSITION

Maintaining a strong capital position is considered a key strategic priority for BAWAG Group. Our CET1 target ratio is 12.25% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

For 2021, the regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP remains stable at 9.14% (based on the Pillar 1 minimum of 4.50% and, a Pillar 2 requirement of 1.125% (2.0% total requirement of which 1.125% need to be met with CET1 instruments), a capital conservation buffer of 2.50%, a systemic risk buffer of 1.0% and a countercyclical buffer of 0.01%). To fulfill the total Pillar 2 requirement of 2.0%, 88 basis points can be filled with Additional Tier 1/Tier 2 capital. In addition to the capital requirement, the SREP for 2021 also includes a Pillar 2 guidance, which is set at 1% for BAWAG Group. The regulator therefore expects us to maintain a CET1 ratio of 10.14% (9.14% SREP requirement plus 1% Pillar 2 guidance). The 12.25% CET1 target ratio therefore represents a management buffer of 311 basis points versus our regulatory requirements (or approximately 211 basis points taking Pillar 2 guidance into account), which we consider to be a conservative level also compared to our competitors.

As of 30 June 2021, a fully loaded CET1 ratio of 14.4%, a fully loaded Tier 1 ratio of 16.8% and a fully loaded total capital ratio of 20.0% exceed both the target ratio and the regulatory requirements detailed above. These ratios fully reflect the deduction of the remaining dividend of € 420 million for financial years 2019 and 2020 as well as € 95 million dividend accrued for the first half of 2021 based on a 50% payout ratio of net profit. On 23 July 2021, the European Central Bank lifted the dividend ban from last year. Therefore, BAWAG Group will propose the remaining € 420 million dividends for financial years 2019 and 2020 for distribution to the Annual General Meeting on 27 August 2021. Based on the fully loaded capital ratios as of 30 June 2021, the maximum distributable amount above the regulatory requirements for 2021 (Pillar 1 minimum ratios, Pillar 2 requirement and combined buffer requirements) is € 3.3 billion.

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

As of 30 June 2021, BAWAG reported MREL-eligible instruments amounting to 26.0% of RWA, thereby already exceeding the binding interim target applicable from 1 January 2022 and the final requirement applicable from 1 January 2024.

In addition to the MREL requirement based on RWA the SRB has also set an MREL requirement based on the leverage ratio exposure (“LRE”). This has been set at 5.91% of LRE on the consolidated level of BAWAG P.S.K. AG with the final requirement being applicable from 1. January 2022. As of 30 June 2021, BAWAG reported MREL eligible instruments amounting to 9.5% of LRE, thereby already exceeding the final requirement applicable from 1. January 2022.

Our funding strategy continues to be based on our stable customer deposits. In addition to our strong deposit base, we have been active in the international capital markets with two successful covered bond benchmark placements of € 500 million each during the first half of 2021.

BAWAG Group also participated in ECB’s TLTRO III program with the maximum capacity of € 6.4 billion.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 265% at the end of Q2 2021. BAWAG Group thereby significantly exceeds the regulatory LCR requirement of 100%.

KEY QUARTERLY PERFORMANCE INDICATORS

in € million	**Q2 2021**	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Net interest income	231.6	229.6	233.6	234.6	227.5
Net fee and commission income	70.1	67.7	64.3	62.8	55.8
Core revenues	301.7	297.3	297.9	297.3	283.3
Operating income	302.5	301.1	302.3	290.0	284.4
Operating expenses	(121.2)	(121.8)	(144.7)	(125.3)	(124.7)
Pre-provision profit	181.3	179.2	157.6	164.6	159.7
Regulatory charges	(2.0)	(54.2)	(6.1)	(14.2)	(2.5)
Total risk costs	(23.8)	(29.3)	(45.3)	(49.7)	(74.6)
Profit before tax	156.2	96.5	107.3	101.1	81.0
Income taxes	(37.0)	(23.0)	(24.5)	(22.2)	(19.4)
Net profit	119.1	73.7	83.1	78.6	61.3
(figures annualized)					
Return on common equity	13.7%	8.6%	9.7%	9.3%	7.4%
Return on tangible common equity	**16.3%**	**10.2%**	**11.6%**	**11.1%**	**9.0%**
Net interest margin	2.28%	2.28%	2.27%	2.31%	2.26%
Cost-income ratio	40.1%	40.5%	47.9%	43.2%	43.8%
Risk costs / interest-bearing assets	0.23%	0.29%	0.44%	0.49%	0.74%
Tax rate	23.7%	23.8%	22.8%	22.0%	24.0%

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 97-99.
Prior-year figures were adjusted. For details, please refer to the Notes section Restatement in accordance with IAS 8.41.

BUSINESS SEGMENTS

RETAIL & SME

During the first six months of 2021, the Retail & SME segment delivered a profit before tax of € 214.3 million, a return on tangible common equity of 25,0% and a cost-income ratio of 39.0%.The trend in asset quality continued to improve across our customer base, with payment holidays at 0.3% as of the end of the first half 2021 (December 2020: 1.2%).

Financial results

Income metrics (in € million)	Q2 2021	Q2 2020	Change (%)	Jan-Jun 2021	Jan-Jun 2020	Change (%)
Net interest income	163.5	166.2	(1.6)	326.6	334.3	(2.3)
Net fee and commission income	62.4	47.7	30.8	122.1	109.4	11.6
Core revenues	**225.8**	**213.8**	**5.6**	**448.6**	**443.7**	**1.1**
Gains and losses on financial instruments	1.2	1.4	(14.3)	2.2	3.3	(33.3)
Other operating income and expenses	0.5	0.3	66.7	1.3	0.9	44.4
Operating income	**227.5**	**215.6**	**5.5**	**452.1**	**447.9**	**0.9**
Operating expenses	**(86.8)**	**(90.0)**	**(3.6)**	**(176.2)**	**(180.1)**	**(2.2)**
Pre-provision profit	**140.8**	**125.6**	**12.1**	**276.0**	**267.8**	**3.1**
Regulatory charges	(0.8)	(0.7)	14.3	(31.4)	(25.9)	21.2
Total risk costs	(14.9)	(35.7)	(58.3)	(30.3)	(77.9)	(61.1)
Profit before tax	**125.0**	**89.1**	**40.3**	**214.3**	**164.0**	**30.7**
Income taxes	(31.3)	(22.3)	40.4	(53.6)	(41.0)	30.7
Net profit	**93.8**	**66.8**	**40.4**	**160.7**	**123.0**	**30.7**

Key ratios	Q2 2021	Q2 2020	Change (pts)	Jan-Jun 2021	Jan-Jun 2020	Change (pts)
Return on tangible common equity	29.3%	22.1%	7.2	25.0%	19.8%	5.2
Net interest margin	3.26%	3.62%	(0.36)	3.29%	3.65%	(0.36)
Cost-income ratio	38.2%	41.7%	(3.5)	39.0%	40.2%	(1.2)
Risk costs / interest-bearing assets	0.30%	0.78%	(0.48)	0.31%	0.85%	(0.54)
NPL ratio	2.0%	1.8%	0.2	2.0%	1.8%	0.2
NPE ratio	2.2%	2.4%	(0.2)	2.2%	2.4%	(0.2)

Business volumes (in € million)	Jun 2021	Dec 2020	Change (%)	Jun 2020	Change (%)
Assets	20,250	19,246	5.2	18,493	9.5
Risk-weighted assets	8,075	8,029	0.6	8,409	(4.0)
Customer deposits	27,241	25,837	5.4	24,877	9.5
Own issues	5,052	4,252	18.8	3,597	40.5

Outlook

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

CORPORATES & PUBLIC

During the first six months 2021, the Corporates & Public segment delivered a profit before tax of € 80.9 million, a return on tangible common equity of 13.9% and a cost-income ratio of 23.6%. We continued to focus on loan origination opportunities in select developed markets. The focus remained on risk-adjusted returns and disciplined profitable lending.

Financial results

Income metrics (in € million)	**Q2 2021**	Q2 2020	Change (%)	**Jan-Jun 2021**	Jan-Jun 2020	Change (%)
Net interest income	61.7	59.5	3.7	122.7	117.9	4.1
Net fee and commission income	8.5	8.9	(4.5)	17.2	19.6	(12.2)
Core revenues	**70.2**	**68.4**	**2.6**	**139.9**	**137.5**	**1.7**
Gains and losses on financial instruments	4.9	0.2	>100	9.5	1.8	>100
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**75.0**	**68.7**	**9.2**	**149.4**	**139.3**	**7.3**
Operating expenses	**(16.7)**	**(20.5)**	**(18.5)**	**(35.3)**	**(41.8)**	**(15.6)**
Pre-provision profit	**58.2**	**48.2**	**20.7**	**114.0**	**97.5**	**16.9**
Regulatory charges	(1.2)	(1.0)	20.0	(8.1)	(7.5)	8.0
Total risk costs	(9.9)	(28.3)	(65.0)	(25.0)	(40.2)	(37.8)
Profit before tax	**47.1**	**18.9**	**>100**	**80.9**	**49.9**	**62.1**
Income taxes	(11.7)	(4.7)	>100	(20.2)	(12.5)	61.6
Net profit	**35.3**	**14.2**	**>100**	**60.7**	**37.4**	**62.3**

Key ratios	**Q2 2021**	Q2 2020	Change (pts)	**Jan-Jun 2021**	Jan-Jun 2020	Change (pts)
Return on tangible common equity	16.1%	6.7%	9.4	13.9%	8.7%	5.2
Net interest margin	1.83%	1.70%	0.13	1.79%	1.71%	0.08
Cost-income ratio	22.3%	29.8%	(7.5)	23.6%	30.0%	(6.4)
Risk costs / interest-bearing assets	0.29%	0.81%	(0.52)	0.37%	0.58%	(0.21)
NPL ratio	1.1%	1.1%	0.0	1.1%	1.1%	0.0
NPE ratio	1.1%	1.3%	(0.2)	1.3%	1.3%	0.0

Business volumes (in € million)	**Jun 2021**	Dec 2020	Change (%)	Jun 2020	Change (%)
Assets	13,226	13,913	(4.9)	13,902	(4.9)
Risk-weighted assets	7,291	7,431	(1.9)	7,652	(4.7)
Deposits and own issues	12,793	12,950	(1.2)	12,182	5.0

Outlook

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

CORPORATE CENTER AND TREASURY

As of 30 June 2021, the investment portfolio amounted to € 5.5 billion and the liquidity reserve was € 11.1 billion. The investment portfolio's average maturity was four years, comprised 98% of investment grade rated securities, of which 70% were rated in the single A category or higher. The portfolio had no direct exposure to China, Russia, CEE or South-Eastern Europe. Exposure to Southern Europe continues to be moderate and comprises shorter-term, liquid bonds of well-known issuers.

Financial results

Income metrics (in € million)	**Q2 2021**	Q2 2020	Change (%)	**Jan-Jun 2021**	Jan-Jun 2020	Change (%)
Net interest income	6.4	1.8	>100	11.9	(5.0)	-
Net fee and commission income	(0.7)	(0.7)	0.0	(1.4)	(1.3)	(7.7)
Core revenues	**5.7**	**1.0**	**>100**	**10.4**	**(6.3)**	**-**
Gains and losses on financial instruments	(14.7)	(12.8)	(14.8)	(1.3)	(25.0)	94.8
Other operating income and expenses	8.9	12.0	(25.8)	(7.2)	25.4	-
Operating income	**(0.1)**	**0.2**	**-**	**2.0**	**(5.9)**	**-**
Operating expenses	**(17.6)**	**(14.2)**	**23.9**	**(31.5)**	**(27.8)**	**13.3**
Pre-provision profit	**(17.7)**	**(14.0)**	**(26.4)**	**(29.5)**	**(33.8)**	**12.7**
Regulatory charges	0.2	(0.7)	-	(16.6)	(5.4)	>100
Total risk costs	1.0	(10.6)	-	2.2	(11.6)	-
Profit before tax	**(15.8)**	**(27.0)**	**41.5**	**(42.5)**	**(51.0)**	**16.7**
Income taxes	6.1	7.6	(19.7)	13.8	14.5	(4.8)
Net profit	**(9.8)**	**(19.7)**	**50.3**	**(28.7)**	**(36.9)**	**22.2**

Business volumes (in € million)	**Jun 2021**	Dec 2020	Change (%)	Jun 2020	Change (%)
Assets	20,656	19,962	3.5	18,876	9.4
Risk-weighted assets	4,776	4,613	3.5	4,691	1.8
Equity	3,975	3,889	2.2	3,659	8.6
Own issues and other liabilities	5,070	6,193	(18.1)	6,955	(27.1)

Outlook

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

RISK MANAGEMENT

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

OUTLOOK AND TARGETS

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

Current economic forecasts expect the economies of the countries we operate in to continue to recover during 2021, with GDP growth of 3.7% across DACH/NL region. A great deal still depends on the effectiveness and wide-scale distribution of COVID-19 vaccines.

We delivered 10% RoTCE in a severely stressed economic environment in 2020, fortified our balance sheet, and took a very conservative approach to provisioning out of an abundance of caution and prudence. We have delivered strong operating results during the first half of 2021 and expect this to continue during the second half of the year.

In our outlook for 2021, we see core revenues growing approximately 2% and operating expenses below € 485 million. Based on the continued improvement in credit and asset quality across our customer base during the first six months of 2021, we updated our outlook on risk costs to below € 100 million in 2021. The outlook does not include any reserve releases. We therefore increased our 2021 targets to a Return on Tangible Common Equity of ~15% (previously >13%) and Cost-Income Ratio ~40% (previously <41%). New Targets and a 4-year Plan through 2025 will be presented at the Investor Day on 20 September 2021.

Our targets are as follows:

Targets	2021 originally	2021 updated
Return on Tangible Common Equity	>13%	~15%
Cost/Income Ratio	<41%	~40%

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

The Managing Board deducted dividends of € 460 million from CET1 capital at the end of 2020. We earmarked dividends of € 372 million for the financial years 2019 and 2020. Additionally, the Managing Board plans to recommend to the ordinary annual general meeting a special dividend of € 88 million for 2020, so as to keep the absolute annual dividend payment of € 230 million consistent between 2019 and 2020. In line with the recent ECB recommendation, the extraordinary general meeting of BAWAG Group approved a dividend payment of € 40 million (or € 0.45 per share), paid on 12 March 2021. The remaining € 420 million dividends (or € 4.72 per share) will be proposed for distribution to the Annual General Meeting on 27 August 2021 (dividend payout early October).

Our solid operating performance, in a significantly challenged macroeconomic environment in 2020, was a true testament to the resilience of BAWAG Group's franchise and strategic focus. We will continue to maintain our low-risk strategy focused on the DACH/NL-region, Western Europe, and the United States, providing our customers with simple, straightforward and reliable financial products and services that address their needs.

25 July 2021

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Managing Board

Sat Shah
Member of the Managing Board

David O'Leary
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Guido Jestädt
Member of the Managing Board

Consolidated Half-Year Financial Statements

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	Jan–Jun 2021	Jan–Jun 2020 restated
Interest income		564.1	559.0
thereof calculated using the effective interest method		417.7	430.9
Interest expense		(106.3)	(113.9)
Dividend income		3.4	2.2
Net interest income	**[2]**	**461.2**	**447.3**
Fee and commission income		172.0	165.3
Fee and commission expense		(34.2)	(37.6)
Net fee and commission income	**[3]**	**137.8**	**127.7**
Gains and losses on financial assets and liabilities	[4]	10.4	(19.9)
thereof gains from the derecognition of financial assets measured at amortized cost		0.0	0.2
thereof losses from the derecognition of financial assets measured at amortized cost		(11.7)	(0.8)
Other operating income		41.8	74.7
Other operating expenses		(101.1)	(84.8)
Operating expenses	[5]	(245.7)	(252.2)
thereof administrative expenses		(210.8)	(212.1)
thereof depreciation and amortization on tangible and intangible non-current assets		(34.9)	(40.1)
Risk costs	[6]	(53.1)	(129.6)
thereof according to IFRS 9		(39.3)	(127.9)
Share of the profit or loss of associates accounted for using the equity method		1.4	(0.3)
Profit before tax		**252.7**	**162.9**
Income taxes		(60.0)	(39.0)
Profit after tax		**192.7**	**123.9**
Thereof attributable to non-controlling interests		(0.1)	0.3
Thereof attributable to owners of the parent		**192.8**	**123.5**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in € million	**Jan–Jun 2021**	Jan–Jun 2020 restated
Profit after tax	**192.7**	**123.9**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plans	12.9	(1.1)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	18.5	(38.3)
Change in credit spread of financial liabilities	0.0	3.0
Income tax on items that will not be reclassified	(8.0)	9.0
Total items that will not be reclassified to profit or loss	**23.4**	**(27.4)**
Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences	4.5	1.8
Hedge of net investment in foreign operations	(2.9)	(1.7)
Cash flow hedge reserve	(19.2)	15.8
thereof transferred to profit (-) or loss (+)[1)]	(1.0)	2.5
Fair value changes of debt instruments at fair value through other comprehensive income	(11.8)	45.0
thereof transferred to profit (-) or loss (+)	(26.7)	(9.2)
Share of other comprehensive income of associates accounted for using the equity method	0.0	–
Income tax relating to items that may be reclassified	8.0	(15.1)
Total items that may be reclassified subsequently to profit or loss	**(21.4)**	**45.8**
Other comprehensive income	**2.0**	**18.4**
Total comprehensive income, net of tax	**194.7**	**142.3**
Thereof attributable to non-controlling interests	(0.1)	0.2
Thereof attributable to owners of the parent	**194.8**	**142.1**

1) To net interest income.

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	30.06.2021	31.12.2020 restated	1.1.2020 restated
Cash reserves		1,060	1,032	1,424
Financial assets at fair value through profit or loss	[7]	559	693	740
Financial assets at fair value through other comprehensive income	[8]	4,384	4,343	3,009
Financial assets held for trading	[9]	284	441	353
Financial assets measured at amortized cost	[10]	46,375	44,634	38,164
Customers		32,371	32,004	30,467
Credit institutions		12,044	9,889	5,720
Securities		1,960	2,741	1,977
Valuation adjustment on interest rate risk hedged portfolios		(58)	24	5
Hedging derivatives		237	405	397
Property, plant and equipment		319	332	396
Investment properties		59	143	311
Goodwill		94	94	94
Brand names and customer relationships		250	255	274
Software and other intangible assets		195	203	201
Tax assets for current taxes		8	9	15
Tax assets for deferred taxes	[11]	5	9	8
Associates recognized at equity		42	44	48
Other assets		246	326	209
Non-current assets held for sale	[12]	73	135	–
Total assets		**54,132**	**53,122**	**45,648**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

Total liabilities and equity

in € million	[Notes]	30.06.2021	31.12.2020 restated	1.1.2020 restated
Total liabilities		**49,638**	**48,768**	**41,831**
Financial liabilities designated at fair value through profit or loss	[13]	191	468	848
Financial liabilities held for trading	[14]	237	422	334
Financial liabilities at amortized cost	[15]	47,485	45,944	38,065
Customers		33,013	32,265	29,900
Issued bonds, subordinated and supplementary capital		6,979	6,157	5,080
Credit institutions		7,493	7,522	3,085
Financial liabilities associated with transferred assets		–	97	729
Valuation adjustment on interest rate risk hedged portfolios		262	358	337
Hedging derivatives		90	62	116
Provisions	[16]	398	425	480
Tax liabilities for current taxes		89	45	34
Tax liabilities for deferred taxes	[11]	116	110	50
Other obligations		770	837	838
Total equity		**4,494**	**4,354**	**3,817**
Equity attributable to the owners of the parent (ex AT1 capital)		4,019	3,879	3,516
AT1 capital		471	471	297
Non-controlling interests		4	4	4
Total liabilities and equity		**54,132**	**53,122**	**45,648**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

STATEMENTS OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates
Balance as of 01.01.2020 published	**88**	**1,126**	**298**	**2,444**	**(17)**	**(104)**	**29**
Adjustments	–	–	–	(1)			(10)
Balance as of 01.01.2020 adjusted	**88**	**1,126**	**298**	**2,443**	**(17)**	**(104)**	**19**
Transactions with owners	–	2	–	–	–	–	–
Share-based payment	–	2	–	–	–	–	–
Dividends	–	–	–	–	–	–	–
Change in scope of consolidation	–	–	–	–	–	–	–
AT1 coupon	–	–	–	(8)	–	–	–
Total comprehensive income	–	–	–	123	12[1]	(1)	34[2]
Balance as of 30.06.2020	**88**	**1,128**	**298**	**2,558**	**(5)**	**(105)**	**53**
Balance as of 01.01.2021 published	**88**	**1,148**	**471**	**2,713**	**(1)**	**(114)**	**121**
Adjustments	–	–	–	0	–	–	(4)
Balance as of 01.01.2021 adjusted	**88**	**1,148**	**471**	**2,713**	**(1)**	**(114)**	**117**
Transfer from other comprehensive income	–	–	–	(2)	–	–	–
Transactions with owners	1	0	–	(41)	–	–	–
Share-based payment	1	0	–	–	–	–	–
Dividends	–	–	–	(41)	–	–	–
AT1 coupon	–	–	–	(13)	–	–	–
Total comprehensive income	–	–	–	193	(15)[1]	10	(9)[2]
Balance as of 30.06.2021	**89**	**1,148**	**471**	**2,850**	**(16)**	**(104)**	**108**

1) Thereof transferred to profit or loss: minus € 0.7 million (H1 2020: plus € 1.8 million).
2) Thereof transferred to profit or loss: minus € 20.0 million (H1 2020: minus € 6.6 million).

	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
	4	11	(54)	2	(3)	3,824	4	3,828
	–	–	–	–	–	(11)	–	(11)
	4	**11**	**(54)**	**2**	**(3)**	**3,813**	**4**	**3,817**
	–	–	–	–	–	2	–	2
	–	–	–	–	–	2	–	2
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	0	0
	–	–	–	–	–	(8)	–	(8)
	–	(28)	2	(2)	2	142	0	142
	4	(17)	(52)	0	(1)	3,950	4	3,954
	5	**(19)**	**(54)**	**18**	**(21)**	**4,354**	**4**	**4,358**
	–	–	–	–	–	(4)	–	(4)
	5	**(19)**	**(54)**	**18**	**(21)**	**4,350**	**4**	**4,354**
	–	–	–	–	–	(2)	–	(2)
	–	–	–	–	–	(40)	–	(40)
	–	–	–	–	–	1	–	1
	–	–	–	–	–	(41)	–	(41)
	–	–	–	–	–	(13)	–	(13)
	–	14	0	(3)	5	195	0	195
	5	**(5)**	**(54)**	**15**	**(16)**	**4,490**	**4**	**4,494**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

CONDENSED CASH FLOW STATEMENT

in € million	Jan-Jun 2021	Jan-Jun 2020 restated
Profit (after tax, before non-controlling interests)	**193**	**123**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(232)	(223)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(1,174)	1,780
Interest receipts	558	538
Interest paid	(113)	(133)
Dividend receipts	6	8
Taxes paid	(8)	(12)
Net cash from operating activities	**(770)**	**2,081**
Cash receipts from sales of associates	0	0
Cash receipts from sales of		
Financial investments	1,165	504
Tangible and intangible non-current assets	149	3
Cash paid for		
Financial investments	(435)	(3,114)
Tangible and intangible non-current assets	(15)	(15)
Acquisition of subsidiaries, net of cash acquired	0	0
Net cash used in investing activities	**864**	**(2,622)**
Dividends paid	(41)	0
AT1 coupon	(13)	(8)
Cash paid for amounts included in lease liabilities	(12)	(12)
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)	0	(20)
Net cash from financing activities	**(66)**	**(40)**
Cash and cash equivalents at end of previous period	**1,032**	**1,424**
Net cash from operating activities	**(770)**	**2,081**
Net cash used in investing activities	**864**	**(2,622)**
Net cash from financing activities	**(66)**	**(40)**
Cash and cash equivalents at end of period	**1,060**	**843**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

NOTES

The condensed Consolidated Half-Year Financial Statements of BAWAG Group as of 30 June 2021 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC) to the extent adopted by the EU.

These Consolidated Half-Year Financial Statements for the first half 2021 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing these Consolidated Half-Year Financial Statements are the same as those applied in the consolidated annual financial statements as of 31 December 2020.

The Half-Year Financial Report as of 30 June 2021 was not audited or reviewed by the external auditor.

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

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

Latitude of judgment and uncertainty of estimates

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

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

The determination of the fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 18 Fair value.

Assessments as to whether or not cash-generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty.

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. The Group regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 11 Net deferred tax assets and liabilities on Statement of Financial Position.

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

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

- recoverability of intangible assets
- recognition of provisions for uncertain liabilities
- assessments of legal risks from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- assessment of the lease term applied for the standard IFRS 16 Leases
- assessing which entities are structured entities, and which involvements in such entities are interests
- IFRS 9: Judgment may be required when assessing the SPPI criterion to ensure that financial assets are classified into the appropriate measurement category. Assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business. In light of the ongoing COVID-19 pandemic, assessment regarding the measurement of individual financial assets, assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans are based on the latest observations available to us. The long-term impact of the pandemic on economic development, the development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be overestimated or underestimated when applying hindsight in the future. For details regarding quantitative effects of COVID-19 as at 30 June 2021, please refer to the Risk Report.
- fair value calculation for unquoted financial instruments where some parameters required for the valuation model are not observable in the market (Level 3). For details regarding effects of COVID-19 as at 30 June 2021, please refer to Note 18 Fair value.

Latitude of judgment and uncertainty of estimates – City of Linz

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

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

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna (court of first instance) at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling € 24.2 million at the exchange rate at that time), which corresponds to the net cash payments made by the City of Linz whilst still performing the swap agreement. BAWAG Group filed a (counter) suit against the City of Linz for the performance of its contractual rights arising from the same transaction in the amount of € 417.7 million, which mainly reflects close-out costs BAWAG Group incurred. The court combined the two suits. The first hearings were held in the spring of 2013 and a court-commissioned expert opinion as well as a supplementary opinion thereto were submitted in August 2016 and December 2017. On 8 April 2019, the City of Linz filed a motion for an interim judgment (Zwischenurteil) with respect to their CHF 30.6 million claim to determine whether the swap agreement is valid. The court responded to such motion with a separation of the previously combined two proceedings and suspended BAWAG Group's (counter) claim pending the outcome of the interim judgment (Zwischenurteil). On 7 January 2020, the court of first instance issued an interim judgment (Zwischenurteil) in which it held that the swap agreement is void. The Court of Appeal confirmed the interim judgment (Zwischenurteil) of the court of first instance on 31 March 2021 and permitted a regular appeal (ordentliche Revision) to the Supreme Court. BAWAG Group filed its appeal to the Supreme Court on 4 May 2021 and the decision of the Supreme Court is still pending.

The interim judgment relates to the validity of the swap agreement only and is not a decision on the mutual payment claims of BAWAG Group and the City of Linz. Therefore, notwithstanding the final decision on the validity of the swap agreement by the Supreme Court, ultimately mutual payment claims will be decided by the court of first instance and potentially again the Court of Appeal and the Supreme Court. BAWAG Group therefore takes the view that its strong legal position remains unchanged and it is well prepared for the forthcoming court proceedings. It is difficult to predict how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgment is enforceable will take several years.

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

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

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

Restatement in accordance with IAS 8.41

Adjustments due to the result of the audit by the FMA

BAWAG Group was subject to an examination pursuant to section 2 (1) line 1 of the Austrian Financial Reporting Control Act (RL-KG). The examination covered the consolidated financial statements as of 31 December 2019 and the half-year financial report as of 30 June 2020. The examination result led to the adjustments described below in connection with the initial consolidation of start:bausparkasse AG and the reclassification of bonds in 2019 to the fair value through other comprehensive income measurement category. The adjustments were taken into account in accordance with IAS 8.41 in this half-year financial report.

The effects of all-below mentioned adjustments on the statement of financial position, total comprehensive income and earnings per share are shown in the following tables:

Assets

in € million	1.1.2020 published	Reclassification of securities	Building savings deposits	1.1.2020 restated
Financial assets at fair value through other comprehensive income	3,631	(622)	–	3,009
Financial assets measured at amortized cost	37,556	608	–	38,164
Securities	1,369	608	–	1,977
Total assets	**45,662**	**(14)**	**–**	**45,648**

Liabilities and equity

in € million	1.1.2020 published	Reclassification of securities	Building savings deposits	1.1.2020 restated
Financial liabilities designated at fair value through profit or loss	369	–	479	848
Financial liabilities at amortized cost	38,543	–	(478)	38,065
Customers	30,378	–	(478)	29,900
Tax liabilities for deferred taxes	54	(4)	0	50
Equity attributable to the owners of the parent (ex AT1 capital)	3,527	(10)	(1)	3,516
Total liabilities and equity	**45,662**	**(14)**	**–**	**45,648**

Assets

in € million	31.12.2020 published	Reclassification of securities	Building savings deposits	31.12.2020 restated
Financial assets at fair value through other comprehensive income	4,830	(487)	–	4,343
Financial assets measured at amortized cost	44,153	481	–	44,634
Securities	2,260	481	–	2,741
Total assets	**53,128**	**(6)**	**–**	**53,122**

Liabilities and equity

in € million	31.12.2020 published	Reclassification of securities	Building savings deposits	31.12.2020 restated
Financial liabilities designated at fair value through profit or loss	324	–	144	468
Financial liabilities at amortized cost	46,088	–	(144)	45,944
Customers	32,409	–	(144)	32,265
Tax liabilities for deferred taxes	112	(2)	0	110
Equity attributable to the owners of the parent (ex AT1 capital)	3,883	(4)	0	3,879
Total liabilities and equity	**53,128**	**(6)**	**–**	**53,122**

Statement of comprehensive income

in € million	Jan–Jun 2020 published	Reclassification of securities	Building savings deposits	Jan–Jun 2020 restated
Interest expense	(113.5)	–	(0.4)	(113.9)
Net interest income	**447.7**	**–**	**(0.4)**	**447.3**
Gains and losses on financial assets and liabilities	(21.9)	–	2.0	(19.9)
thereof gains from the derecognition of financial assets measured at amortized cost	0.0	0.2	–	0.2
Profit before tax	**161.3**	**–**	**1.6**	**162.9**
Income taxes	(38.6)	–	(0.4)	(39.0)
Profit after tax	**122.7**	**–**	**1.2**	**123.9**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Fair value changes of debt instruments at fair value through other comprehensive income	37.8	7.2	–	45.0
thereof transferred to profit (-) or loss (+)	(9.4)	0.2	–	(9.2)
Income tax relating to items that may be reclassified	(13.3)	(1.8)	–	(15.1)
Total items that may be reclassified subsequently to profit or loss	**40.4**	**5.4**	**–**	**45.8**
Other comprehensive income	**13.0**	**5.4**	**–**	**18.4**
Total comprehensive income, net of tax	**135.7**	**5.4**	**1.2**	**142.3**

Earnings per share

	Jan–Jun 2020 published	Reclassification of securities	Building savings deposits	Jan–Jun 2020 restated
Basic earnings per share (in €)	1.31	–	0.01	1.32
Diluted earnings per share (in €)	1.30	–	0.02	1.32

Below is a description of the misstatements identified and the resulting adjustments made by BAWAG Group:

start:bausparkasse AG

As part of the acquisition of start:bausparkasse AG as of 1 December 2016, building society savings deposits with embedded interest rate caps and floors were included in the consolidated financial statements of BAWAG Group. The embedded interest rate limitation agreements were not separated from the host contracts.

In the context of business combinations, IFRS 3.16c) in conjunction with IFRS 3.15 requires an entity to assess whether an embedded derivative is required to be separated from the host contract at the acquisition date in accordance with IFRS 9.

Since BAWAG Group did not measure or classify the hybrid building society savings deposits at fair value through profit or loss, and since stand-alone instruments with the same terms as the embedded derivatives would meet the definition of derivatives (IFRS 9.4.3.3b)), the decisive factor in assessing whether the embedded interest rate cap agreements must be separated is whether their economic characteristics and risks were closely related to the economic characteristics and risks of the host contracts at the acquisition date (IFRS 9.4.3.3a)).

According to IFRS 9.B4.3.8b), the economic characteristics and risks of an embedded floor or cap on interest rates of a debt instrument are closely related to the host contract if, at the date the contract is acquired, the interest rate cap is equal to or higher than the prevailing market interest rate or the interest rate floor is equal to or lower than the prevailing market interest rate and the cap or floor is not leveraged relative to the host contract. The economic characteristics and risks of interest rate caps below and interest rate floors above the prevailing market interest rate are not closely related to the host contract.

Due to the partly high levels of the embedded floors acquired in relation to the market situation prevailing in December 2016 and due to the interest rate development between the date of origin of the contracts and the date of acquisition of start:bausparkasse AG, which is reflected, among other things, in the partially high fair values at the acquisition date, after taking into account the relevant parameters and components, at least the floors from the contracts that had already existed for a longer period at the acquisition date were "in the money" by comparison with a swap rate in line with the maturity or with the respective forward rate and therefore had to be separated.

This "classification" as defined by the use of this term in IFRS 3 as of 1 December 2016 has an impact on the measurement in subsequent periods and affects the consolidated financial statements as of 31 December 2019 as well as the half-year financial report as of 30 June 2020, as building savings deposits acquired on 1 December 2016 with embedded floors in different amounts were still recognized in the portfolio on these reporting dates.

As a result of the audit conducted by the FMA, a further review was carried out to determine whether the building society savings deposits acquired in 2016 included embedded derivatives that were subject to separation. The agreed interest rate floors were compared with the maturity-matched swap rate plus spread. Based on this comparison, building savings deposits with a remaining term of less than four years and an interest rate floor of more than 0.25% at the acquisition date contain derivatives that must be separated.

In accordance with IFRS 9.4.2.2 in conjunction with IFRS 9.4.3.5, a financial liability that contains one or more separable embedded derivatives may be irrevocably designated upon initial recognition as at fair value through profit or loss. Due to the correction of the error and the associated existence of a derivative that must be separated, it is now possible to measure the savings deposits concerned in their entirety at fair value through profit or loss. BAWAG Group exercises this option and designates the savings deposits concerned as financial liabilities at fair value through profit or loss as of the acquisition date.

The change in measurement made on the occasion of the examination resulted in a decrease in financial liabilities measured at amortized cost of € 478 million as of 31 December 2019 (€ 144 million as of 31 December 2020) and an increase in financial liabilities measured at fair value of € 479 million as of 31 December 2019 (€ 144 million as of 31 December 2020). Taking into account deferred taxes, equity decreased by € 1.1 million as of 31 December 2019, increased by € 0.1 million as of 30 June 2020 and decreased by € 0.1 million as of 31 December 2020. Net income for the first half-year 2020 increased by € 1.2 million, net income for 2020 increased by € 1.0 million.

Reclassification of securities to the fair value measurement category in 2019 (IFRS 9).

In the financial year 2019, BAWAG P.S.K. sold securities, with a nominal value of € 1,597.8 million (including securities acquired in the financial year 2019), in several tranches. The securities in this investment book were allocated to the business model "hold to collect" ("HTC", holding assets to collect contractual cash flows, measurement at amortized cost) as defined by IFRS 9. The securities held in this investment book served the purpose of natural hedging of interest rate risks from non-interest bearing balance sheet items. The amount of the net non-interest bearing position was € 2,820.0 million in December 2018. The carrying amount of the securities held was € 2,283.6 million as of 31 December 2018.

At the end of fiscal year 2019, the Bank decided to reclassify part of the securities held in this investment book with a nominal value of approximately € 600 million to other securities books and to leave the position, whose book value at the time of the decision to reclassify was approximately € 2,500 million, fully unsecured. The proposed decision also provided that the reclassification would result in a change of the business model from "hold to collect" to "hold to collect and sell" ("HTCS", the collection of contractual cash flows and the sale of financial assets, measured at fair value through other comprehensive income).

As of 31 December 2019, securities from this investment book with a nominal value of almost € 600 million were reclassified from the category of measurement at amortized cost to the category of measurement at fair value through other comprehensive income. The one-time positive effect on other comprehensive income from the reclassification amounted to € 10.2 million net of deferred taxes. As of 31 December 2020, the effect amounted to € 4.3 million net after consideration of the related hedge in the amount of € 1.7 million.

The remaining securities in the portfolio continued to be managed under the "hold to collect" business model and were measured at amortized cost. The carrying amount of the securities held in this investment book amounted to € 187.6 million as of 31 December 2019.

The reclassification made of securities transferred from this investment book to other securities books to the fair value through other comprehensive income category is not in accordance with the requirements of IFRS 9.4.4.1 in conjunction with IFRS 9.B4.4.1ff. and IFRS 9.5.6.1 in conjunction with IFRS 9.B5.6.1.

According to IFRS 9.B4.4.1, the reclassification of financial assets requires, among other things, existing external or internal changes that are demonstrable to external parties. According to the standard, the business model is only changed if the entity either commences or ceases an activity that is significant to its operations. IFRS 9.B4.4.3 clarifies that a change of intention with respect to certain financial assets or a transfer of financial assets between parts of the entity with different business models does not constitute a change in the business model.

Accordingly, the transfer of some of the securities held in this investment book to other securities books does not result in a change of business model even if the hedging strategy associated with those securities changes. The requirements for reclassification are therefore not met in the present case.

As a result, other comprehensive income was overstated by € 10.2 million (after tax) in the financial statements as of 31 December 2019, and by € 4.3 million (after tax) as of 31 December 2020.

Impact of sales of securities on the assessment of the business model for newly acquired financial assets (IFRS 9)

The Bank held the security of this investment book newly acquired in 2020 as part of a business model whose objective is to hold financial assets to collect the contractual cash flows (IFRS 9.4.1.2a)). This security was subsequently measured at amortized cost.

This is contrary to IFRS 9.4.1.2 in conjunction with IFRS 9.B4.1.2A and B4.1.2C, according to which the frequency, value, timing and reasons for sales in previous periods must be taken into account when determining whether cash flows are realized through the collection of contractual cash flows from financial assets. As a result of the intensity of sales of securities from this investment book observable in 2018 and 2019, the conditions for classification to the business model "hold to collect contractual cash flows" were not met for the newly acquired securities from this investment book after 31 December 2019. As a further consequence, the presentation of this security in the balance sheet in the half-year financial report for 30 June 2020 is incorrect. The resulting effect on earnings amounts to € 0.0 million. As of 31 December 2020, the security had been redeemed.

Miscellaneous

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

As of 30 June 2021, the Group consists of 51 (31 December 2020: 60) fully consolidated companies and 2 (31 December 2020: 2) companies that are accounted for using the equity method in Austria and abroad.

In the first quarter 2021, the LSREF3 Tiger entities were deconsolidated.

In the second quarter 2021, E2E Kreditmanagement GmbH as the transferring company was merged with E2E Service Center Holding GmbH. Due to the merger, E2E Kreditmanagement GmbH was eliminated from the scope of consolidation. E2E Service Center Holding GmbH was then renamed to E2E Services GmbH.

Also in the second quarter 2021, ROMAX Immobilien GmbH was deconsolidated due to immateriality.

Deconsolidation of LSREF3 Tiger entities

The LSREF3 Tiger entities (LSREF3 Tiger Aberdeen S.à r.l., LSREF3 Tiger Falkirk I S.à r.l., LSREF3 Tiger Gloucester S.à r.l., LSREF3 Tiger Romford S.à r.l., LSREF3 Tiger Southampton S.à r.l.) are real estate companies located in Luxembourg and each of them holds an investment property in the United Kingdom. After the purchase of the LSREF3 Tiger entities through two holding companies (Tiger Retail UK RE 1 and Tiger Retail UK RE 2) as well as meeting the criteria for the control rights as set out in IFRS 10, the LSREF3 Tiger entities and the two holding companies had been consolidated in BAWAG Group's consolidated financial statements from April 2019 until March 2021.

In the first quarter 2021, the senior refinancing provided by third parties defaulted, changing the decision-making rights between the senior lenders and BAWAG Group. BAWAG Group no longer has substantive control rights over the LSREF3 Tiger entities since it lost its power over the relevant activities and is no longer exposed to the variable returns from its involvement as set out in IFRS 10. Therefore, the LSREF3 Tiger entities were deconsolidated in March 2021. Furthermore, the two holding companies were also deconsolidated in March 2021 due to immateriality.

The following table compares the assets and liabilities over which control was lost:

in € million	31.03.2021
Financial assets measured at amortized cost	11
Investment properties	82
Other assets	1
Financial liabilities at amortized cost	86
Other obligations	8
Equity	**0**

MAJOR EVENTS AFTER THE REPORTING DATE

On 22 July 2021 BAWAG Group signed an agreement to acquire Hello bank! Austria from BNP Paribas. Hello bank! Austria is a market leader in the online securities business and will be continued under the easybank brand. The transaction is subject to customary closing conditions.

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

1 | Earnings per share

Earnings per share pursuant to IAS 33

	Jan–Jun 2021	Jan–Jun 2020 restated
Net result attributable to owners of the parent (in € million)	192.8	123.5
AT1 coupon (in € million)	(12.5)	(7.5)
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	**180.3**	**116.0**
Weighted average number of outstanding shares	88,697,835	87,937,130
Basic earnings per share (in €)	**2.03**	**1.32**
Weighted average diluted number of outstanding shares	89,003,812	88,155,251
Diluted earnings per share (in €)	**2.03**	**1.32**

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

	Jan–Jun 2021	Jan–Jun 2020 restated
Net result attributable to owners of the parent (in € million)	**192.8**	**123.5**
Weighted average diluted number of outstanding shares	89,003,812	88,155,251
After-tax earnings per share in (€) – BAWAG definition	**2.17**	**1.40**

Changes in number of outstanding shares

	Jan–Jun 2021	Jan–Jun 2020
Shares outstanding at the beginning of the period	87,937,130	87,937,130
Shares outstanding at the end of the period	88,855,047	87,937,130
Weighted average number of outstanding shares	88,697,835	87,937,130
Weighted average diluted number of outstanding shares	89,003,812	88,155,251

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

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

2 | Net interest income

in € million	Jan–Jun 2021	Jan–Jun 2020
Interest income	564.1	559.0
Interest expense	(106.3)	(113.9)
Dividend income	3.4	2.2
Net interest income	**461.2**	**447.3**

3 | Net fee and commission income

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

Jan–Jun 2021 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**151.5**	**20.4**	**–**	**0.1**	**172.0**
Payment transfers	87.2	13.4	–	0.1	100.7
Lending	12.5	1.2	–	–	13.7
Securities and custody business	30.9	5.6	–	–	36.5
Factoring	8.1	–	–	–	8.1
Insurance & other services	12.8	0.2	–	–	13.0
Fee and commission expense	**(29.4)**	**(3.2)**	–	**(1.6)**	**(34.2)**
Payment transfers	(24.4)	(0.3)	–	–	(24.7)
Lending	(4.7)	(0.4)	–	–	(5.1)
Securities and custody business	(0.1)	(2.1)	–	(1.6)	(3.8)
Factoring	–	–	–	–	–
Others	(0.2)	(0.4)	–	–	(0.6)
Net fee and commission income	**122.1**	**17.2**	**–**	**(1.5)**	**137.8**

Jan–Jun 2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**141.9**	**23.1**	**0.1**	**0.2**	**165.3**
Payment transfers	92.2	14.8	0.1	0.2	107.3
Lending	11.5	1.7	–	–	13.2
Securities and custody business	23.6	5.7	–	–	29.3
Factoring	7.4	–	–	–	7.4
Insurance & other services	7.2	0.9	–	–	8.1
Fee and commission expense	**(32.5)**	**(3.5)**	**–**	**(1.6)**	**(37.6)**
Payment transfers	(28.6)	(0.3)	–	–	(28.9)
Lending	(2.8)	(0.5)	–	–	(3.3)
Securities and custody business	–	(2.0)	–	(1.5)	(3.5)
Factoring	–	–	–	–	–
Others	(1.1)	(0.7)	–	(0.1)	(1.9)
Net fee and commission income	**109.4**	**19.6**	**0.1**	**(1.4)**	**127.7**

Net fee and commission income includes an amount of € 1.4 million (H1 2020: € 1.4 million) for fiduciary transactions. Income from payment transfers and securities and custody business is recognized mainly at a point in time. Income from lending is recognized mainly over time. Other income is recognized using a mix of point in time and over time.

4 | Gains and losses on financial assets and liabilities

in € million	Jan–Jun 2021	Jan–Jun 2020
Realized gains on sales of securities	14.5	8.8
Fair value losses	(1.5)	(28.7)
Gains/Losses from fair value hedge accounting	(5.8)	4.0
Others	3.2	(4.0)
Gains and losses on financial assets and liabilities	**10.4**	**(19.9)**

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

5 | Operating expenses

in € million	Jan–Jun 2021	Jan–Jun 2020
Staff costs	(149.9)	(138.2)
Other administrative expenses	(60.9)	(73.9)
Administrative expenses	**(210.8)**	**(212.1)**
Depreciation and amortization on tangible and intangible non-current assets	(34.9)	(40.1)
Operating expenses	**(245.7)**	**(252.2)**

6 | Risk costs

in € million	Jan–Jun 2021	Jan–Jun 2020
Loan loss provisions and changes in provisions for off-balance credit risk	(39.3)	(120.3)
Provisions and expenses for operational risk	(13.8)	(1.7)
Impairment losses on non-financial assets	–	(7.6)
Risk costs	**(53.1)**	**(129.6)**

Impairment losses on non-financial assets

in € million	Jan–Jun 2021	Jan–Jun 2020
Software and other intangible assets	–	(7.6)
thereof Brand name	–	(0.1)
thereof Software and other intangible assets	–	(7.5)
Impairment and appreciation of non-current assets	**–**	**(7.6)**

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

7 | Financial assets at fair value through profit or loss

in € million	30.06.2021	31.12.2020
Financial assets designated at fair value through profit or loss	**83**	**90**
Receivables from customers	83	90
Financial assets mandatorily at fair value through profit or loss	**476**	**603**
Bonds and other fixed income securities	275	364
Receivables from customers	130	168
Subsidiaries and other equity investments	71	71
Financial assets at fair value through profit or loss	**559**	**693**

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

The maximum credit risk of loans and advances to customers equals book value.

8 I Financial assets at fair value through other comprehensive income

in € million	30.06.2021	31.12.2020
Debt instruments	**4,077**	**4,124**
Bonds and other fixed income securities	4,077	4,124
Bonds of other issuers	4,026	4,071
Public sector debt instruments	51	53
Subsidiaries and other equity investments	**307**	**219**
AT1 capital	42	178
Investments in non-consolidated subsidiaries	18	13
Interests in associates	1	1
Other shareholdings	246	27
Financial assets at fair value through other comprehensive income	**4,384**	**4,343**

9 I Financial assets held for trading

in € million	30.06.2021	31.12.2020
Derivatives in banking book	**284**	**441**
Foreign currency derivatives	16	103
Interest rate derivatives	268	338
Financial assets held for trading	**284**	**441**

10 I Financial assets measured at amortized cost

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

30.06.2021 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	32,768	(49)	(78)	(270)	32,371
Securities	1,961	(1)	0	0	1,960
Public sector debt instruments	151	0	–	–	151
Debt instruments of other issuers	1,810	(1)	–	–	1,809
Receivables from credit institutions	12,044	0	0	–	12,044
Total	**46,773**	**(50)**	**(78)**	**(270)**	**46,375**

31.12.2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	32,376	(46)	(60)	(266)	32,004
Securities	2,743	(2)	0	0	2,741
Public sector debt instruments	151	0	–	–	151
Debt instruments of other issuers	2,592	(2)	0	–	2,590
Receivables from credit institutions	9,889	0	0	–	9,889
Total	**45,008**	**(48)**	**(60)**	**(266)**	**44,634**

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

in € million	**30.06.2021**	31.12.2020
Loans	28,807	28,347
Current accounts	1,212	1,115
Finance leases	1,729	1,741
Cash advances	106	111
Money market	517	690
Receivables from customers	**32,371**	**32,004**

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

30.06.2021 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	20,086	(31)	(34)	(217)	19,804
Corporates & Public	12,712	(17)	(44)	(53)	12,598
Treasury	13,605	(2)	0	0	13,604
Corporate Center	370	0	0	0	370
Total	**46,773**	**(50)**	**(78)**	**(270)**	**46,375**

31.12.2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	19,032	(31)	(31)	(204)	18,766
Corporates & Public	13,358	(16)	(28)	(61)	13,253
Treasury	12,284	(1)	(1)	0	12,282
Corporate Center	334	0	0	(1)	333
Total	**45,008**	**(48)**	**(60)**	**(266)**	**44,634**

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

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

in € million	30.06.2021	31.12.2020
Financial liabilities designated at fair value through profit or loss	18	24
Financial liabilities at amortized cost	140	172
Provisions	57	67
Tax loss carryforwards	4	6
Other	7	5
Deferred tax assets	**226**	**274**
Financial assets at fair value through profit or loss	16	14
Financial assets at fair value through other comprehensive income	31	38
Financial assets at amortized cost	44	59
Assets held for trading	24	30
Hedging derivatives	124	138
Internally generated intangible assets	18	18
Other intangible assets	65	65
Property, plant and equipment	15	13
Deferred tax liabilities	**337**	**375**
Net deferred tax assets/liabilities	**(111)**	**(101)**
Deferred tax assets reported on the balance sheet[1)]	**5**	**9**
Deferred tax liabilities reported on the balance sheet	**116**	**110**

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

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

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

As of 30 June 2021, deferred tax assets on tax loss carryforwards of BAWAG Group amount to € 4 million. The risk that COVID-19 will have an impact on the recoverability of tax loss carryforwards that have not yet been utilized is therefore considered to be low. As can be seen in the table above, the statement of financial position shows a net deferred tax liability of € 111 million. There is therefore no increased risk that deferred tax assets cannot be used for future taxable profits.

12 | IFRS 5 Non-current assets held for sale

In the financial year 2020, BAWAG Group decided to sell certain real estate properties in Germany. Following corresponding resolutions, a broker was engaged for the sales process. As of 30 June 2021, properties had already been sold, and for additional properties the completion of the sales process within the second half of the current financial year is considered highly probable. As the criteria under IFRS 5 are met, the properties in question are classified as non-current assets held for sale. At the beginning of the current financial year, they comprised investment properties in the amount of € 99 million, which are recognized at fair value, and real estate which is used by the enterprise for its own operations in the amount of € 37 million, which was measured using the cost model in accordance with IAS 16. The non-current assets held for sale are reported in the Corporate Center segment. Some properties were sold in the first half of 2021. Investment properties measured at fair value and not sold within the first half of 2021 increased by € 8.2 million (less costs to sell) in the first half of the current financial year. The valuation result was recognized in other operating income or expenses in accordance with IAS 40. The management of BAWAG Group no longer intends to sell one of the properties and consequently reclassified the property with a carrying amount of € 9 million to investment properties. As a result of the changes described, the carrying amount of non-current assets held for sale decreased to € 73 million.

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

in € million	30.06.2021	31.12.2020
Issued bonds, subordinated and supplementary capital	**170**	**318**
Issued debt securities and other securitized liabilities	18	19
Subordinated capital	105	106
Short-term notes and non-listed private placements	47	193
Deposits from customers	**21**	**150**
Financial liabilities designated at fair value through profit or loss	**191**	**468**

14 | Financial liabilities held for trading

in € million	30.06.2021	31.12.2020
Derivatives banking book	**237**	**422**
Foreign currency derivatives	63	170
Interest rate derivatives	173	252
Credit derivatives	1	–
Financial liabilities held for trading	**237**	**422**

15 | Financial liabilities measured at amortized cost

in € million	30.06.2021	31.12.2020
Deposits from credit institutions	**7,493**	**7,522**
Deposits from customers	**33,013**	**32,265**
Savings deposits – fixed interest rates	612	611
Savings deposits – variable interest rates	5,693	5,791
Deposit accounts	6,635	6,187
Current accounts – Retail	13,201	11,551
Current accounts – Corporates	4,125	5,005
Other deposits[1)]	2,747	3,120
Issued bonds, subordinated and supplementary capital	**6,979**	**6,157**
Issued debt securities	6,119	5,261
Subordinated capital	49	61
Supplementary capital	619	612
Other obligations evidenced by paper	192	223
Financial liabilities at amortized cost	**47,485**	**45,944**

1) Primarily time deposits.

As of 30 June 2021, BAWAG Group utilized € 6.4 billion of funding under the ECB's TLTRO III facility compared to € 5.8 billion as of 31 December 2020. BAWAG Group has decided to participate in the TLTRO III facility despite its already strong liquidity position as an economically attractive measure to pre-position liquidity and to support lending to the real economy.

The negative interest expense from the TLTRO III program amounting to € 30.8 million (H1 2020: € 1.0 million) is reported under interest income.

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

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

In December 2020, the ECB decided to extend the special interest rate terms for the period between 24 June 2021 and 23 June 2022 for banks that achieve sufficient lending volumes in the additional reference period between 1 October 2020 and 31 December 2021. In subsequent years, the interest rate will be between the deposit facility and main refinancing operations rates, depending to what extent BAWAG Group meets the lending growth conditions of the TLTRO III program. BAWAG Group is closely monitoring its eligible lending vs. the applicable lending benchmark. BAWAG Group is confident that it will also meet the required lending benchmark in the additional reference period to continue to benefit from the most advantageous TLTRO III interest rates.

The outstanding TLTRO facility is recognized at amortized cost using the effective interest rate method under deposits from credit institutions. The expected cash flows take into account the Bank's assessment of achieving the required lending benchmark. BAWAG Group uses the specific applicable interest rate expected for the respective individual interest period of TLTRO III.

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

16 | Provisions

in € million	30.06.2021	31.12.2020
Provisions for social capital	360	385
Thereof for severance payments	87	95
Thereof for pension provisions	244	258
Thereof for jubilee benefits	29	32
Anticipated losses from pending business	23	25
Credit promises and guarantees	23	25
Other items including legal risks	15	15
Provisions	**398**	**425**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. A discount rate of 1.00% was used (31 December 2020: 0.70%). Actuarial adjustments resulted in a positive net impact of € 9.6 million in other comprehensive income and a positive net impact of € 1.9 million in profit.

17 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

30.06.2021 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	37	2	65	0
Unutilized credit lines	–	–	8	22	20	–
Securities	–	–	–	25	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	4	89	0	0
Other liabilities (incl. derivatives)	–	–	–	–	–	–
Guarantees provided	–	–	0	–	1	–
Interest income[1])	–	–	0.3	0.2	0.1	–
Interest expense	–	–	0.0	0.5	0.0	0.0
Net fee and commission income	–	–	0.0	4.8	0.0	0.0

1) Gross income; hedging costs not offset.

31.12.2020 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	39	2	68	0
Unutilized credit lines	–	–	5	23	20	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	5	91	1	0
Other liabilities (incl. derivatives)	–	–	–	–	–	–
Guarantees provided	–	–	0	–	1	–
Interest income[1])	–	–	0.7	0.3	0.2	–
Interest expense	–	–	0.0	1.2	0.0	0.0
Net fee and commission income	–	–	0.0	5.7	0.0	0.0

1) Gross income; hedging costs not offset.

30.06.2020 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	39	1	71	0
Unutilized credit lines	–	–	5	23	34	–
Securities	–	–	–	25	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	4	93	0	0
Other liabilities (incl. derivatives)	–	–	–	0	–	–
Guarantees provided	–	–	–	–	1	–
Interest income[1])	–	–	0.3	0.0	0.1	–
Interest expense	–	–	0.0	0.7	0.0	0.0
Net fee and commission income	–	–	0.0	2.4	0.0	0.0

1) Gross income; hedging costs not offset.

Information regarding natural persons

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

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
in € million	30.06.2021	30.06.2021	31.12.2020	31.12.2020
Current account deposits	5	5	7	5
Savings deposits	0	4	0	5
Loans	10	8	3	5
Building savings deposits	–	0	–	0
Leasing	0	0	–	0
Securities[1)]	2	0	1	1
Interest income	0.0	0.0	0.0	0.1
Interest expense	0.0	0.0	0.0	0.0

1) Key management includes related trusts.

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
Number of shares	30.06.2021	30.06.2021	31.12.2020	31.12.2020
Shares of BAWAG Group AG[1)]	2,104,707	305,312	927,156	724,965

1) Key management includes related trusts.

SEGMENT REPORTING

This information is based on the Group structure as of 30 June 2021.

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

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

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

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

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

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

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

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

Jan-Jun 2021 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	326.6	122.7	27.3	(15.4)	461.2
Net fee and commission income	122.1	17.2	0.0	(1.5)	137.8
Core revenues	**448.6**	**139.9**	**27.3**	**(16.8)**	**599.0**
Gains and losses on financial instruments	2.2	9.5	15.9	(17.2)	10.4
Other operating income and expenses	1.3	0.0	0.0	(7.2)	(5.9)
Operating income	**452.1**	**149.4**	**43.2**	**(41.2)**	**603.5**
Operating expenses	**(176.2)**	**(35.3)**	**(17.5)**	**(14.0)**	**(243.0)**
Pre-provision profit	**276.0**	**114.0**	**25.7**	**(55.2)**	**360.5**
Regulatory charges	(31.4)	(8.1)	(6.2)	(10.4)	(56.1)
Total risk costs	(30.3)	(25.0)	3.5	(1.3)	(53.1)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	1.4	1.4
Profit before tax	**214.3**	**80.9**	**23.0**	**(65.5)**	**252.7**
Income taxes	(53.6)	(20.2)	(5.8)	19.6	(60.0)
Profit after tax	**160.7**	**60.7**	**17.2**	**(45.9)**	**192.7**
Non-controlling interests	–	–	–	0.1	0.1
Net profit	**160.7**	**60.7**	**17.2**	**(45.8)**	**192.8**
Business volumes					
Assets	20,250	13,226	18,565	2,091	54,132
Liabilities	32,293	12,793	3,014	6,032	54,132
Risk-weighted assets	8,075	7,291	2,670	2,106	20,142

Jan-Jun 2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	334.3	117.9	24.1	(29.0)	447.3
Net fee and commission income	109.4	19.6	0.1	(1.4)	127.7
Core revenues	**443.7**	**137.5**	**24.2**	**(30.4)**	**574.9**
Gains and losses on financial instruments	3.3	1.8	(0.7)	(24.4)	(19.9)
Other operating income and expenses	0.9	0.0	0.0	25.4	26.3
Operating income	**447.9**	**139.3**	**23.5**	**(29.3)**	**581.3**
Operating expenses	**(180.1)**	**(41.8)**	**(14.2)**	**(13.5)**	**(249.6)**
Pre-provision profit	**267.8**	**97.5**	**9.3**	**(42.8)**	**331.7**
Regulatory charges	(25.9)	(7.5)	(5.4)	0.0	(38.8)
Total risk costs	(77.9)	(40.2)	(2.0)	(9.5)	(129.6)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	(0.4)	(0.4)
Profit before tax	**164.0**	**49.9**	**1.9**	**(52.9)**	**162.9**
Income taxes	(41.0)	(12.5)	(0.5)	15.0	(39.0)
Profit after tax	**123.0**	**37.4**	**1.4**	**(37.9)**	**123.9**
Non-controlling interests	–	–	–	(0.3)	(0.3)
Net profit	**123.0**	**37.4**	**1.4**	**(38.2)**	**123.5**
Business volumes					
Assets	18,493	13,902	16,178	2,699	51,271
Liabilities	28,475	12,182	4,559	6,056	51,271
Risk-weighted assets	8,409	7,652	2,682	2,008	20,751

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

Geographical split

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

As an Austrian bank, BAWAG Group generates 62.8% of its core revenues in Austria. The business is focused on the DACH/NL region, supported by German and Swiss subsidiaries and international corporate business and sales channels (brokers and platforms), in particular Vrij Leven, a mortgage origination platform in the Netherlands with a focus on state guaranteed and low LTV mortgage loans.

The following tables show core revenues per segment and geography:

Jan-Jun 2021 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH / NL	426.9	52.2	6.4	(19.0)	466.5
thereof Austria	354.2	37.3	2.2	(17.8)	375.9
thereof Germany	55.6	13.6	1.4	(1.2)	69.4
Western Europe/USA	21.7	87.7	20.9	2.2	132.5
Total	**448.6**	**139.9**	**27.3**	**(16.8)**	**599.0**

Jan-Jun 2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH / NL	419.9	59.0	4.7	(33.5)	450.1
thereof Austria	355.4	37.6	1.5	(30.9)	363.6
thereof Germany	58.4	18.4	1.5	(2.6)	75.7
Western Europe/USA	23.8	78.5	19.5	3.1	124.9
Total	**443.7**	**137.5**	**24.2**	**(30.4)**	**575.0**

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

in € million	Jan–Jun 2021	Jan–Jun 2020
Other operating income and expenses according to segment report	(5.9)	26.3
Regulatory charges	(53.5)	(36.3)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(59.3)**	**(10.1)**

in € million	Jan–Jun 2021	Jan–Jun 2020
Operating expenses according to segment report	(243.0)	(249.6)
Regulatory charges	(2.7)	(2.5)
Operating expenses according to Consolidated Profit or Loss Statement	**(245.7)**	**(252.2)**

CAPITAL MANAGEMENT

Regulatory reporting is performed on the level of BAWAG Group. The following table shows the breakdown of own funds of BAWAG Group applying transitional rules and its own funds requirement as per 30 June 2021 and 31 December 2020 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

	BAWAG Group	
in € million	**30.06.2021**	31.12.2020
Share capital and reserves (including funds for general banking risk)[1)2)]	3,497	3,266
Deduction of intangible assets	(409)	(407)
Other comprehensive income	(81)	(48)
IRB risk provision shortfalls	(23)	(3)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(4)	(5)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	0	0
Deduction for CET1 instruments of financial sector entities where the institution does not have a significant investment	(2)	(1)
Insufficient coverage for non-performing exposures[2)]	(205)	–
Common Equity Tier I	**2,772**	**2,802**
Additional Tier I	**475**	**473**
Tier I	**3,247**	**3,275**
Supplementary and subordinated debt capital	626	651
Tier II capital in grandfathering	23	1
Excess IRB risk provisions	–	25
Less significant investments	(25)	(24)
Tier II	**624**	**653**
Own funds	**3,871**	**3,928**

1) In this position, dividends not yet paid out for the financial years 2019 and 2020 in the amount of € 419.0 million were deducted (31 December 2020: € 459.5 million).

2) As of 31 December 2020, the line item "Share capital and reserves" included a deduction of a prudential filter. In accordance with CRR2, the prudential filter was reclassified to the line item "Insufficient coverage for non-performing exposures" as of 30 June 2021.

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

	BAWAG Group	
in € million	**30.06.2021**	31.12.2020
Credit risk	18,138	18,049
Market risk	0	0
Operational risk	2,018	2,024
Capital requirements (risk-weighted assets)	**20,156**	**20,073**

Supplemental information on a fully loaded basis

	BAWAG Group	
	30.06.2021	31.12.2020
Common Equity Tier 1 capital ratio based on total risk	14.4%	14.0%
Total capital ratio based on total risk	20.0%	19.6%

Key figures according to CRR including its transitional rules

	BAWAG Group	
	30.06.2021	31.12.2020
Common Equity Tier 1 capital ratio based on total risk	13.8%	14.0%
Total capital ratio based on total risk	19.2%	19.6%

Restatement of prior-period comparatives in accordance with IAS 8

In the first half of 2021, certain comparative information was restated in accordance with IAS 8.41. For details, please refer to the section Restatement in accordance with IAS 8.41. The following table presents the restatement of the capital disclosures affected:

	31.12.2020	
in € million	Published	Adjusted
Capital requirements (risk-weighted assets)	20,072	20,073
Common Equity Tier I	2,807	2,802
Own funds	3,933	3,928
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a fully loaded basis	14.0%	14.0%
Total capital ratio based on total risk (incl. interim profit) on a fully loaded basis	19.6%	19.6%
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a transitional basis	14.0%	14.0%
Total capital ratio based on total risk (incl. interim profit) on a transitional basis	19.6%	19.6%

18 | Fair value

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

in € million	Carrying amount 30.06.2021	Fair value 30.06.2021	Carrying amount 31.12.2020	Fair value 31.12.2020
Assets				
Cash reserves	1,060	1,060	1,032	1,032
Financial assets designated at fair value through profit or loss	83	83	90	90
Loans to customers	83	83	90	90
Financial assets mandatorily at fair value through profit or loss	476	476	603	603
Securities	275	275	364	364
Loans to customers	130	130	168	168
Subsidiaries and other equity investments	71	71	71	71
Financial assets at fair value through other comprehensive income	4,384	4,384	4,343	4,343
Debt instruments	4,077	4,077	4,124	4,124
Subsidiaries and other equity investments	307	307	219	219
Financial assets held for trading	284	284	441	441
At amortized cost	46,375	46,619	44,634	45,035
Customers	32,371	32,538	32,004	32,316
Credit institutions	12,044	12,046	9,889	9,892
Securities	1,960	2,035	2,741	2,827
Valuation adjustment on interest rate risk hedged portfolios	(58)	(58)	24	24
Hedging derivatives	237	237	405	405
Property, plant and equipment	319	n/a	332	n/a
Investment properties	59	59	143	143
Intangible non-current assets	539	n/a	552	n/a
Other assets	301	n/a	388	n/a
Non-current assets held for sale	73	73	135	146
Total assets	**54,132**		**53,122**	

in € million	Carrying amount 30.06.2021	Fair value 30.06.2021	Carrying amount 31.12.2020	Fair value 31.12.2020
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	191	191	468	468
Issued debt securities and other securitized liabilities	65	65	212	212
Subordinated and supplementary capital	105	105	106	106
Deposits from customers	21	21	150	150
Financial liabilities held for trading	237	237	422	422
Financial liabilities at amortized cost	47,485	47,587	45,944	46,118
Deposits from credit institutions	7,493	7,495	7,522	7,544
Deposits from customers	33,013	33,084	32,265	32,339
Issued bonds, subordinated and supplementary capital	6,979	7,008	6,157	6,235
Financial liabilities associated with transferred assets	-	-	97	97
Valuation adjustment on interest rate risk hedged portfolios	262	262	358	358
Hedging derivatives	90	90	62	62
Provisions	398	n/a	425	n/a
Other obligations	975	n/a	992	n/a
Equity	4,490	n/a	4,350	n/a
Non-controlling interests	4	n/a	4	n/a
Total liabilities and equity	**54,132**		**53,122**	

The fair values of material investment properties are based on external and internal valuations. For details regarding Non-current assets held for sale, please refer to Note 12. The carrying amount of other assets and other obligations is a reasonable approximation of their fair value. Therefore, information on the fair value of these items is not shown.

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

Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

As of 30 June 2021, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in the Group's credit spreads was minus € 0.03 million (plus € 0.4 million as of 31 December 2020). This is defined as the product of the credit spread basis point value with the respective spread change, supplemented by the pull-to-par effect. As of 30 June 2021, the cumulative fair value change resulting from changes in the Group's credit rating amounted to minus € 1.9 million (minus € 1.9 million as of 31 December 2020).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.03 million (minus € 0.04 million as of 31 December 2020).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to minus € 0.1 million as of 30 June 2021 (€ 0.0 million as of 31 December 2020) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus € 0.1 million (€ 0.0 million as of 31 December 2020).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.04 million (plus € 0.05 million as of 31 December 2020).

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

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

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

30.06.2021 in € million	Level 1	Level 2	Level 3	**Total**
Assets				
Financial assets designated at fair value through profit or loss	–	83	–	83
Financial assets mandatorily at fair value through profit or loss	2	25	449	476
Financial assets at fair value through other comprehensive income	4,239	48	97	4,384
Debt instruments	4,029	48	0	4,077
Subsidiaries and other equity investments	210	–	97	307
Financial assets held for trading	0	284	–	284
Valuation adjustment on interest rate risk hedged portfolios	–	(58)	–	(58)
Hedging derivatives	–	237	–	237
Investment properties	–	–	59	59
Non-current assets held for sale	–	–	73	73
Total assets	**4,241**	**619**	**678**	**5,538**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	143	48	191
Issued debt securities and other securitized liabilities	–	32	33	65
Subordinated and supplementary capital	–	105	–	105
Deposits from customers	–	6	15	21
Financial liabilities held for trading	–	237	–	237
Valuation adjustment on interest rate risk hedged portfolios	–	262	–	262
Hedging derivatives	–	90	–	90
Total liabilities	**–**	**732**	**48**	**780**

31.12.2020 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	90	–	90
Financial assets mandatorily at fair value through profit or loss	32	58	513	603
Financial assets at fair value through other comprehensive income	4,174	128	41	4,343
Debt instruments	3,996	128	–	4,124
Subsidiaries and other equity investments	178	–	41	219
Financial assets held for trading	0	441	–	441
Valuation adjustment on interest rate risk hedged portfolios	–	24	–	24
Hedging derivatives	–	405	–	405
Investment properties	–	–	143	143
Non-current assets held for sale	–	–	146	146
Total assets	**4,206**	**1,146**	**843**	**6,195**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	148	320	468
Issued debt securities and other securitized liabilities	–	36	176	212
Subordinated and supplementary capital	–	106	–	106
Deposits from customers	–	6	144	150
Financial liabilities held for trading	–	422	–	422
Valuation adjustment on interest rate risk hedged portfolios	–	358	–	358
Hedging derivatives	–	62	–	62
Total liabilities	**–**	**990**	**320**	**1,310**

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

Movements between Level 1 and Level 2

In the first half 2021, securities at fair value through other comprehensive income with a book value of € 0 million (31 December 2020: € 66 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices. Securities at fair value through other comprehensive income with a book value of € 67 million (31 December 2020: € 0 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 financial instruments measured at fair value

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

			Financial assets at fair value through other comprehensive income		
in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2021	**513**	**–**	**0**	**41**	**320**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	12	–	–	–	1
for assets no longer held at the end of the period	0	–	–	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	0	–	–	(4)	(1)
for assets no longer held at the end of the period	0	–	–	–	–
Purchases/Additions	5	–	–	59	–
Redemptions	(47)	–	–	–	(272)
Sales	(37)	–	–	0	–
Foreign exchange differences	4	–	–	1	–
Change in scope of consolidation	(1)	–	0	–	–
Closing balance as of 31.12.2021	**449**	**–**	**–**	**97**	**48**

in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial liabilities
			Debt instruments	Subsidiaries and other equity investments	
Opening balance as of 01.01.2020	**511**	**–**	**1**	**80**	**674**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	6	–	0	0	(6)
for assets no longer held at the end of the period	0	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	(38)	(2)
for assets no longer held at the end of the period	–	–	0	–	–
Purchases/Additions	84	–	–	12	–
Redemptions	(33)	–	(1)	–	(347)
Sales	(43)	–	–	(12)	–
Foreign exchange differences	(12)	–	–	(1)	–
Closing balance as of 31.12.2020	**513**	**–**	**0**	**41**	**320**

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

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

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank and former IMMO-BANK is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium for own issues of BAWAG P.S.K. Wohnbaubank depends on the maturity and is currently 117 basis points (31 December 2020: 117 basis points) for 5 years (mid). For issues of former IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

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

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

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

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

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

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

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

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

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

The fair values of customer liabilities at fair value through profit or loss are determined analogously to receivables using the discounted cash flow method and the Bachelier model.

Sensitivity analysis of fair value measurement from changes in unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. The current COVID-19 situation results in increased uncertainty with regard to unobservable input parameters and the measurement of the fair value of such items. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and former IMMO-BANK and customer deposits in start:bausparkasse.

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 30 June 2021 would have increased by € 0.1 million (31 December 2020: € 0.1 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 30 June 2021 would have decreased by € 0.1 million (31 December 2020: € 0.1 million).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus € 1.8 million as of 30 June 2021 (31 December 2020: plus € 1.2 million) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The corresponding annual fair value change amounted to plus € 0.6 million (31 December 2020: minus € 0.5 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.06 million (31 December 2020: plus € 0.07 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 30 June 2021 would have decreased by € 5.9 million (31 December 2020: € 7.1 million). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 30 June 2021 would have increased by € 6.7 million (31 December 2020: € 8.1 million).

If the liquidity discount of illiquid funds is increased by 10 percentage points, the valuation result as of 30 June 2021 would have decreased by € 1.1 million (31 December 2020: € 1.3 million). If the liquidity discount of illiquid funds is decreased by 10 percentage points, the valuation result as of 30 June 2021 would have increased by € 1.1 million (31 December 2010: € 1.3 million).

For the valuation of a part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments is decreased by 100 basis points, the fair value would increase by € 6.0 million (thereof € 4.1 million FVTOCI and € 1.9 million FVTPL) (31 December 2020: € 5.9 million; thereof € 4.1 million FVTOCI and € 1.8 million FVTPL), whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 4.6 million (thereof € 3.1 million FVTOCI and € 1.5 million FVTPL) (31 December 2020: € 4.5 million; thereof € 3.1 million FVTOCI and € 1.4 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 1.5 million (thereof € 0.5 million FVTOCI and € 1.0 million FVTPL) (31 December 2020: € 1.1 million; thereof € 0.5 million FVTOCI and € 0.6 million FVTPL); if changes in dividend income or net profit where applicable declined by 20%, the fair value would decrease by € 1.1 million (thereof € 0.5 million FVTOCI and € 0.6 million FVTPL) (31 December 2020: € 0.9 million; thereof € 0.5 million FVTOCI and € 0.4 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 10.6 million (thereof € 5.6 million FVTOCI and € 5.0 million FVTPL) (31 December 2020: € 6.1 million, thereof € 0.8 million FVTOCI and € 5.3 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 10.6 million (thereof € 5.6 million FVTOCI and € 5.0 million FVTPL) (31 December 2020: € 6.1 million; thereof € 0.8 million FVTOCI and € 5.3 million FVTPL).

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 1.9 million (thereof € 1.9 million FVTOCI and € 0.0 million FVTPL) (31 December 2020: € 1.5 million; thereof € 0.0 million FVTOCI and € 1.5 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 1.9 million (thereof € 1.9 million FVTOCI and € 0.0 million FVTPL) (31 December 2020: € 1.5 million; thereof € 0.0 million FVTOCI and € 1.5 million FVTPL).

The fair value of two non-traded investment funds is based on fair value quotes provided by the fund manager. Based on the current portfolio allocation, one fund has an expected interest rate sensitivity of approximately minus € 0.7 million (31 December 2020: minus € 1.1 million) if rates rise by 100 bp and a credit spread sensitivity of minus € 0.8 million (31 December 2020: minus € 1.2 million) if credit spreads widen by 100 bp (and vice versa).

For the other fund, the following applies: if the fair value indicated increased by 10%, the Group would recognize a gain of € 16.3 million in profit or loss (31 December 2020: € 15.4 million). If the fair value indicated decreased by 10%, the Group would recognize a loss of € 16.3 million in profit or loss (31 December 2020: € 15.4 million).

If the interest rates used in calculating the fair value of customer liabilities accounted for at fair value through profit or loss increased by 100 basis points, the accumulated valuation result as of 30 June 2021 would have increased by € 0.1 million (31 December 2020: increase by € 0.3 million). If the interest rates decreased by 100 basis points, the accumulated valuation result as of 30 June 2021 would have decreased by € 0.1 million (31 December 2020: decrease by € 0.4 million).

19 | Treatment of day one gain

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

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

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

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

in € million	30.06.2021	31.12.2020
Balance at the beginning of the period	**25**	**36**
New transactions	–	–
Amounts recognized in profit or loss during the period	(4)	(11)
FX effects	0	0
Balance at the end of the period	**21**	**25**

20 | Contingent assets, contingent liabilities and unused lines of credit

in € million	30.06.2021	31.12.2020
Contingent assets	**–**	**–**
Contingent liabilities	**181**	**339**
Arising from guarantees	181	339
Other contingent liabilities	–	–
Unused customer credit lines	**8,510**	**8,370**
Thereof terminable at any time and without notice	6,203	6,524
Thereof not terminable at any time	2,307	1,846

RISK REPORT

BAWAG Group is a focused bank with a low-risk, simple and transparent business model. We focus on developed markets with strong banking and legal infrastructures, primarily the DACH/NL region, Western Europe and the United States. We specialize in retail and SME banking activities and serve customers with comprehensive savings, lending, investment and bank-assurance products. Our liquidity is primarily provided by stable retail deposits. Simplicity and efficiency are the foundation of our operations, in which we simplify processes from end to end in order to provide our customers with clarity, ease and value through our products.

In addition to our low-risk business model, risk management and the active steering of risks are primary components of the Group's business strategy. "Safe and Secure" is a core pillar of our strategy and there is a high level of commitment across the entire organization to manage the Bank according to a low risk profile. We believe our risk management approach is a differentiator in our market and is key to achieving our strategic and financial objectives as well as creating value for our shareholders and protecting our customers.

Safe and Secure is a cornerstone of our Group strategy and our risk policies and governance. It is founded on the following tenets:

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

2021 H1 summary

- The stabilizing macroeconomic environment driven by the improving health situation and easing of virus containment measures are reflecting in the portfolio quality. This has been evidenced by a continuing decline of customers in payment moratoria and a material migration of customers from Stage 2 (lifetime expected loss) potential credit impairment to Stage 1 performing book (one-year expected loss).

- Despite the return of the economy to a growth path, BAWAG Group continues to ensure adequate levels of risk provisions. While economic conditions improve and EU economies reopen, there remains continued risk of negative developments from the spread of virus variants, which may delay economic progress.

- ECL reserves have been increased by 13% to € 147 million (FY 2020: € 130 million), which incorporates the improved outlook but offset through the maintenance of a management overlay. ECL reserves driven by management overlay amount to € 70 million (FY 2020: € 38 million), which has increased. BAWAG will continue to monitor potential economic development in light of the sustaining uncertainty and revisit management overlay assumptions and needs frequently.

- The NPL ratio (without City of Linz) remains stable at 1.1% (FY 2020: 1.1%), with NPL cash coverage to 45% (FY 2020: 46%).

- Including City of Linz receivable and prudential capital, total NPL ratio of 1.5% (FY 2020: 1.5%), with NPL cash coverage of 60.8% (FY 2020: 61.7%).

- Portfolio of € 51.2 billion net carrying amount (2020: € 49.6 billion), with continued focus on growth in the DACH/NL region.

- Highly collateralized Retail & SME portfolio (primarily mortgage) increased to 86% of total exposure versus 85%[1)] in 2020.

- Robust liquidity at end of half-year, with LCR of 265% (FY 2020: 231%). The ratio is well above regulatory requirements.

- Risk appetite set as foundation for business strategy and portfolio management.

Development of key risk metrics

	Total book		
in € million	30.06.2021	31.12.2020	Change
NPL ratio	1.5%	1.5%	–
NPL cash coverage ratio	60.8%	61.7%	(87)bps
NPL coverage ratio	87.9%	94.0%	(610)bps
Impairments Stage 1 and 2	147	130	17m
Impairments Stage 3	276	271	5m
Prudential filter	274	275	(1)m
LCR	265%	231%	34pts

Risk statement

BAWAG Group is active in commerical banking activities, focusing primarily on retail & SME banking with a secondary focus on corporate banking in selective markets with adequate risk-adjusted returns. As such, the Bank takes on the typical risks inherent to the banking industry, as well as the economy in general. BAWAG Group closely monitors and manages all such risks within a strict and comprehensive risk framework, with the intent to mitigate such risks as negative impacts may occur and ensure adequate levels of capital and liquidity.

BAWAG Group has established a comprehensive and forward-looking risk management framework, which considers the nature, scale and complexity of the Group's business activities and the resulting risks. The Group's risk management governance and oversight involves understanding drivers of risks, types of risks and impacts of risks. BAWAG Group's approach to risk, risk appetite and the governance framework remained unchanged.

The following divisions oversee the implementation and execution of risk-related guidelines (as of 30.06.2021):

- Risk Controlling
- Credit Modelling
- Validation
- Commercial Risk Management
- Retail Risk Management
- Credit Strategy & Analytics
- Group Data Warehouse (joint reporting line to Risk and Finance)

21 | COVID-19 pandemic – impacts on risk management

The COVID-19 pandemic has had and continues to have a significant impact on our markets, customers and operations. As such, risk management took proactive steps to address the continued disruptions of the economy and our customers, as well as integrate regulatory measures and programs to provide relief to our communities. Throughout, risk management

1) value 2020 has been corrected

processes were designed to maintain transparency, measure underlying risk development and take action as necessary. The Bank's COVID-19 response is detailed separately given the prominence of the impacts over the year.

The temporary restrictions on public life resulting from lockdowns and travel restrictions in the course of the COVID-19 pandemic and the associated negative economic effects resulted in continued impacts on governance, underwriting, moratoria/public credit guarantees and provisioning.

Governance
During this crisis, the risk management framework of BAWAG Group has demonstrated that it can seamlessly adapt its risk assessment, measurement and reporting to reflect the unprecedented impacts and fluid nature of the current situation, which is a testament to our robust risk infrastructure (IT, reporting, analytics) and governance framework.

In response to the COVID-19 crisis, the management took a highly proactive and granular approach to adapting operations. Enhanced governance steps and frequencies were put into place to ensure immediacy of performance and areas of stress, unified responses across our operations and data-driven decisions. The following actions and initiatives have been taken or continued:

- Recurring steering meetings with the Management Board and relevant divisions across the organization to facilitate focused operational reviews, timely decision making and prioritization for seamless operational execution
- Regular monitoring reports of key performance indicators (KPIs) of customer behavior across the credit risk lifecycle covering new business applications, revolving limit utilization and collections performance and macro developments
- Dedicated COVID-19 credit risk reporting with reviews of certain corporate sub-portfolios and regular outreach to financial sponsors or management to understand the latest position
- Proactive customer outreach initiatives to raise awareness for various support measures in place depending on customer segment (forbearance options for private individuals, government support schemes for SMEs, case-by-case assessment for corporate exposures)
- Review of the Group-wide payment deferral data that tracks various support measures provided by the Bank (e.g. payment deferrals by moratorium type, working capital facilities leveraging government guarantee schemes) broken down by product type/country and type of moratorium
- Extended risk reporting to provide up-to-date monitoring of the development of particular portfolios, customer groups and products affected by the pandemic
- Ongoing review of IFRS 9 provisions under various macroeconomic scenarios

Underwriting
The Bank follows a conservative underwriting approach with clearly defined underwriting guidelines and a focus on high levels of collateralization, appropriate debt service to income metrics and risk-adjusted returns. Underwriting decisions are supported by strong risk analytics capabilities, which ensured a targeted review of risk appetite and execution of associated credit actions during the crisis to reflect the anticipated adverse macroeconomic environment. The full range of loan products was provided during the pandemic, thereby consistently following our approach already initiated in 2019 to shift our new business mix towards secured lending products.

COVID-19-induced moratoria and credit guarantees
To mitigate the economic impact of COVID-19 measures in the form of short-term operational or liquidity problems, many of our markets saw the introduction of various moratoria that can essentially be summarized as payment moratoria and that also had an impact on the first half-year 2021. Borrowers are granted a temporary deferral of obligations to make principal repayments as well as payments for interest and fees. The payment moratoria are structured differently depending on local legislation or the regulatory guidelines in the respective banking sector. BAWAG Group supported its clients following the legal (set by law and applying to all institutions within a given jurisdiction) or private (private initiatives in the form of industry-wide or sector-wide measures, agreed and documented by institutions through their industry associations in a given jurisdiction) loan moratoria, provided that the resulting payment bottlenecks are due to the COVID-19 pandemic.

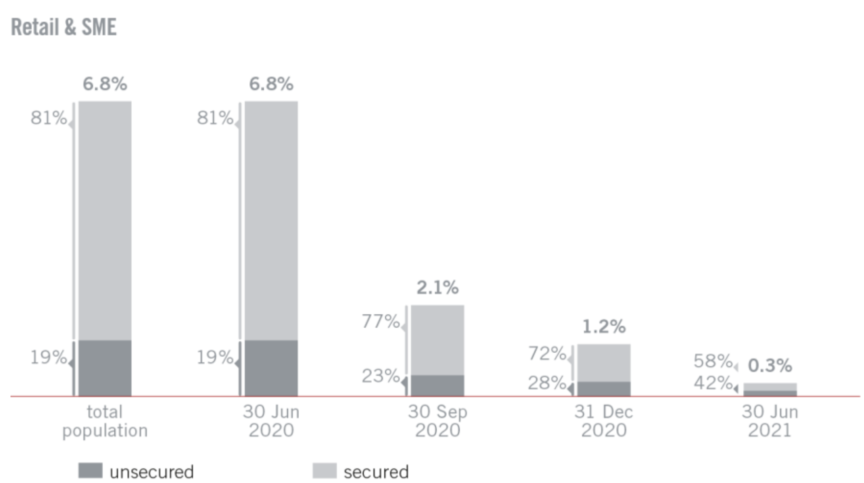
In addition to these EBA-compliant moratoria – especially given the fact that the remaining legal and private moratoria expired in the first quarter of 2021 and the lockdown in Austria continued into the second quarter – bilateral moratoria were granted to support clients.

The following table shows the volume and quantity of moratoria provided by BAWAG Group as of 30 June 2021:

	Active deferrals		Expired deferrals		
in € million	# of loans	Loan amount	# of loans	Loan amount	Paying ratio
Retail & SME	**1,189**	**69**	**23,279**	**1,094**	**90%**
o/w secured	282	40	13,461	894	91%
o/w unsecured	907	29	9,818	200	85%
Corporates & Public	**9**	**9**	**87**	**58**	**100%**
Total	**1,198**	**78**	**23,366**	**1,152**	**90%**

Active deferrals refer to those with an expiry date on or after 30 June 2021 (or earlier and not yet billed), expired deferrals refer to those with an expiry date before 30 June which have already had at least one billing date after expiry and loans are still active. The paying ratio shows the volume of loans that could pay their installments in relation to total expired loan amounts.

The first half-year 2021 saw a continued decrease of moratoria with lower new applications for deferrals as well as extensions of existing ones – given the continued public support measures (short-time work, compensation payment to affected companies) and "lighter" lockdowns. The following chart shows the development in relation to the customer loan book on a quarterly basis.



COVID-19-induced moratoria were mainly used by private individuals. The majority of the remaining active moratoria will expire in July 2021.

- The **unsecured volume** of € 29 million consists solely of consumer loans. A total of 73% of clients with active deferrals also have their salary account at BAWAG Group – allowing for detailed analysis of their income development, payment behavior and probability of continuing paying after expiry of the deferrals.

- The secured volume of € 40 million is mostly backed by mortgages with an average LTV of 78%. All active deferrals are flaged as forborne and allocated at least to stage 2. Overall, 91% of payment deferrals returned to paying when they expired. Expiries in 2021 show no material difference in payment behavior than loans for which the deferrals already ended in 2020.

Moreover, to counter the economic downturn caused by the COVID-19 pandemic, many countries adopted various forms of direct financial support for individuals, households and businesses, as well as bridge loans extended by banks and guaranteed by governments to ensure that companies have sufficient liquidity during the COVID-19 pandemic.

The following table shows the volume of loans provided by BAWAG Group with public guarantees as of 30 June 2021:

in € million	# of loans	Loan amount	Amount drawn	Public guarantee
Retail & SME	752	51	49	95%
Corporates & Public	13	32	29	91%
Total	765	83	78	93%

Provisioning
BAWAG Group has taken measures to address the current inherent uncertainty as a result of the COVID-19 pandemic to ensure the appropriate and timely identification of distressed debtors and adequate levels of provisioning across all stages of credit risk.

The Bank has established a comprehensive framework to determine IFRS 9 expected credit loss (ECL), which provides for future losses which have not yet occurred by identifying macro forecast influences, customers with higher risk profiles and ultimately customers with increased likelihood of payment defaults. It was ensured that the core concepts for the assessment of a significant increase of credit risk were maintained with the fullest diligence (for a more detailed description, please refer to the ECL section on page 216 in the risk report of the annual report). Given the economic uncertainty created by the COVID-19 pandemic, the Bank has applied adaptions and created management overlays to these concepts to ensure an adequate level of provisioning. At 30 June 2021, BAWAG Group had increased ECL provisions by 13% or € 17 million to € 147 million (FY 2020: € 130 million, FY 2019: € 56 million), since the start of the year, of which € 70 million (FY 2020: € 38 million) was the result of a management overlay in excess of modeled ECL to ensure adequate provisioning in light of the economic uncertainty.

Forbearance classification and assessment of unlikeliness to pay
The Bank has granted to its customers, primarily in the Retail & SME segment, different types of payment moratoria based on public or private initiatives. Payment deferrals that fulfill the conditions as defined by the European Banking Authority (EBA), most recently updated in December 2020, are not being classified as forborne and thus trigger no automatic transfer from stage 1 (one-year expected credit loss) to stage 2 (lifetime expected credit loss). Concessions that did not fall under the purview of an EBA-compliant moratorium or that did not meet stipulated qualification criteria for a specific moratorium were classified as forbearance accordingly. Given there were no EBA-compliant moratoria in place for the Corporate & Public segment, all measures were subject to a case-by-case assessment in line with our internal processes and policies, which adhere to the current regulatory framework.

The Bank established the close monitoring of customers subject to a payment deferral if any other circumstances indicate a deterioration in credit quality. Significant enhancements to the operational process, controls, tracking and monitoring capabilities were proactively implemented to assist borrowers in potential financial distress. Clearly defined communication and engagement plans with customers nearing the end of moratoria were set up to inform them of further support options available to them. Furthermore, we leveraged our robust analytics infrastructure to analyze granular transactional data to determine customers' distress levels along with a targeted collections contact strategy and outreach program to support customers facing payment difficulties at the end of moratoria.

For corporate exposures, portfolio monitoring and management efforts have been significantly enhanced in terms of frequency and proactivity with the borrower. A monthly watch loan committee meeting is part of the Bank's early warning system. Clients on the watch list are monitored and reviewed on a more frequent basis, which was instituted weekly since the beginning of the pandemic to ensure a detailed understanding of credit conditions and developments to form a risk management strategy on an asset-by-asset basis. Weekly calls with the Managing Board on a comprehensive watch list tiered based on levels of risk of default were established. In addition, dedicated reviews of certain sub-portfolios with larger exposures are continually carried out and updated periodically as part of the weekly meetings. Unlikeliness to pay (UTP) assessment is a critical part of these watch list and review processes.

Assessment of significant increases in credit risk and staging

Credit risk assessment and stage allocation is generally conducted on the individual customer level; no collective assessment or stage transfer of certain groups of customers or industries is applied. Within the established IFRS 9 ECL framework, all quantitative and qualitative criteria that indicate a significant increase in credit risk, such as an increase in probability of default (PD) as a result of deteriorating macroeconomic forecasts, relative stage transfer thresholds, 30 days past due backstop triggers, forbearance measures, etc., remain fully applicable and were not amended or relaxed due to COVID-19.

Macroeconomic scenarios/Forward-looking information

To determine stage allocation and expected credit loss, credit risk parameters are re-assessed applying forward-looking information derived from macroeconomic scenarios. In line with the recommendation provided by the ECB in its letter "IFRS 9 in the context of the coronavirus (COVID-19) pandemic" (April 2020), we applied a balanced distribution of alternative scenarios which are centered around the baseline scenario anchored in the European staff macroeconomic projections provided by the ECB (published on 4 December 2020).

Eurozone macroeconomic forecast considered for ECL

GDP growth in %	2020	2021	2022	2023
Optimistic (30% weight)	(6.7)%	5.4%	5.6%	2.2%
Baseline (40% weight)	(6.7)%	4.3%	4.0%	2.5%
Pessimistic (30% weight)	(6.7)%	3.0%	(0.1)%	2.9%

Management overlay

Significant progress has been made in combating the COVID-19 pandemic with phasing out lockdown measures and continued efforts by health authorities in our core markets to rapidly increase vaccination rates. The level of provisioning is founded on the abovementioned macroeconomic scenarios derived from the ECB's economic outlook, which take these developments into consideration. The fluid nature of this crisis and the continuously changing conditions, however, result in a continued degree of uncertainty regarding the successful long-term containment of the pandemic and sustainable macroeconomic recovery. To take account of this uncertainty, we consider it appropriate to recognize higher provisions for expected credit risks. BAWAG Group has addressed the uncertainty of the further development and impacts of the COVID-19 pandemic by considering a portfolio ECL management overlay. Since the outbreak of the COVID-19 pandemic, BAWAG Group has ensured that an adequate level of provisions for expected credit losses are held, originally by applying the ECB's most severe macroeconomic outlook of Q2 2020 (decline in Eurozone gross domestic product of 12.6%, respectively, in comparison to the actual GDP decline of roughly 7% in 2020).

We maintained the ECL levels from these severe inputs without any release due to the improvement of economic forecasts, creating a substantial management overlay of € 70 million (FY 2020: € 38 million) across all stages.

Impact of management overlays on ECL:

in € million	Expected credit loss	Management overlay	Total
Impairments Stage 1	41	26	67
Impairments Stage 2	36	44	80
Total	**77**	**70**	**147**

BAWAG Group is closely monitoring the further macroeconomic development in the markets we operate in. The release of the management overlay will be assessed when a sustainable improvement of the macroeconomic environment can be observed.

22 | Credit risk

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

Governance: The operational credit risk divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) and retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Managing Board level, is responsible for approval of loan applications within the authorities defined in the Competence and Power Regulation. The Risk Controlling division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

Risk mitigation: Core objectives of credit risk management are to

- Steer conservative credit risk taking in line with approved risk appetite
- Maintain a governance and control framework to oversee credit risks across the lifecycle
- Identify, assess and measure credit risk in a timely and accurate manner

In operative terms, these objectives translate into the following key credit risk principles:

- Disciplined underwriting in well established markets predominantly focused on
  - secured lending and/or
  - prime rated clients, based on a through-the-cycle lens view of performance.
- Clearly defined organizational units and approach to manage credit risk based on type. Corporate exposures are managed on a case-by-case basis by experts with deep expertise in the relevant segment and retail exposures managed at the segment level leveraging best-in-class data, analytics and rating infrastructure.
- Robust early warning, collections and workout framework in place to ensure credit risk at the single obligor level is identified at its earliest stage and appropriate mitigating actions are taken to ensure good outcomes for our clients and for the Group.

Assessing creditworthiness

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

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

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

To manage overall concentration risk at the client and group of affiliated customers level, exposure limits are defined, monitored and reported on a monthly basis.

Due to the centralized structure and coordination of risk management processes across BAWAG Group, new risk regulations or changing market situations are considered and adapted in a timely manner within the risk management strategies.

Measuring credit risk

BAWAG Group is a banking group that applies the internal rating-based (IRB) approach and therefore sets high standards with regard to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are modeled, monitored, statistically calibrated and validated on a regular basis.

The following sections provide an overview of the structure and the portfolio quality in the individual segments.

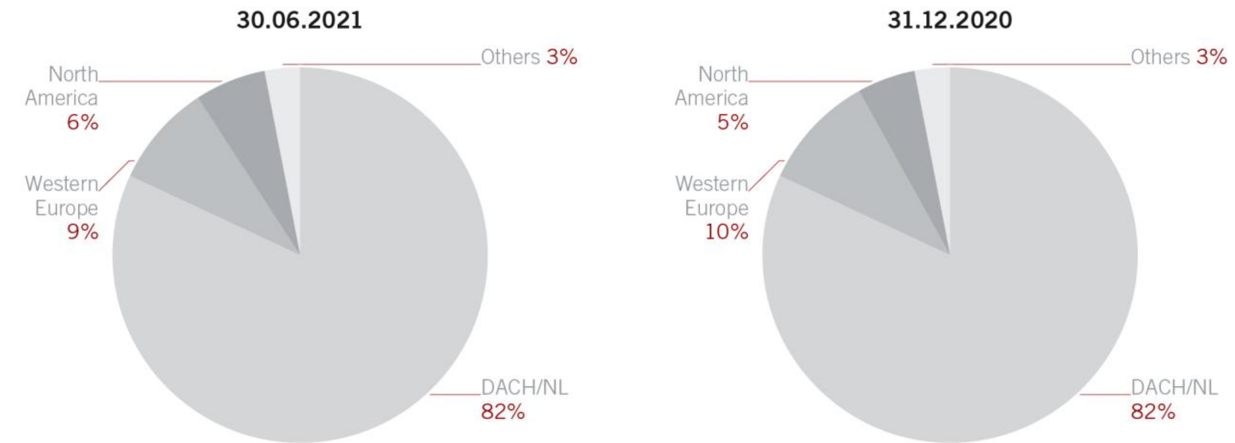
30.06.2021 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
At amortized cost	19,804	12,598	13,604	369	46,375
Financial assets FVPL/FVOCI	164	513	3,900	205	4,782
Off-balance business	4,037	1,826	893	970	7,726
Total	**24,005**	**14,937**	**18,397**	**1,544**	**58,883**
thereof collateralized	15,326	4,948	312	–	20,586
thereof NPL (gross view)	479	171	–	254	904
Impairments Stage 1	42	23	2	0	67
Impairments Stage 2	35	45	0	0	80
Impairments Stage 3	218	58	–	0	276
Total impairments	**295**	**126**	**2**	**0**	**423**
Prudential filter	1	18	–	255	274

31.12.2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
At amortized cost	18,765	13,252	12,283	334	44,634
Financial assets FVPL/FVOCI	214	556	4,129	37	4,936
Off-balance business	4,152	1,626	959	1,339	8,077
Total	**23,132**	**15,434**	**17,371**	**1,710**	**57,647**
thereof collateralized	14,340	4,297	–	739	19,376
thereof NPL (gross view)	449	182	–	255	886
Impairments Stage 1	42	20	5	0	67
Impairments Stage 2	33	30	0	–	64
Impairments Stage 3	207	65	–	–	271
Total impairments	**281**	**115**	**5**	**0**	**402**
Prudential filter	1	19	–	255	275

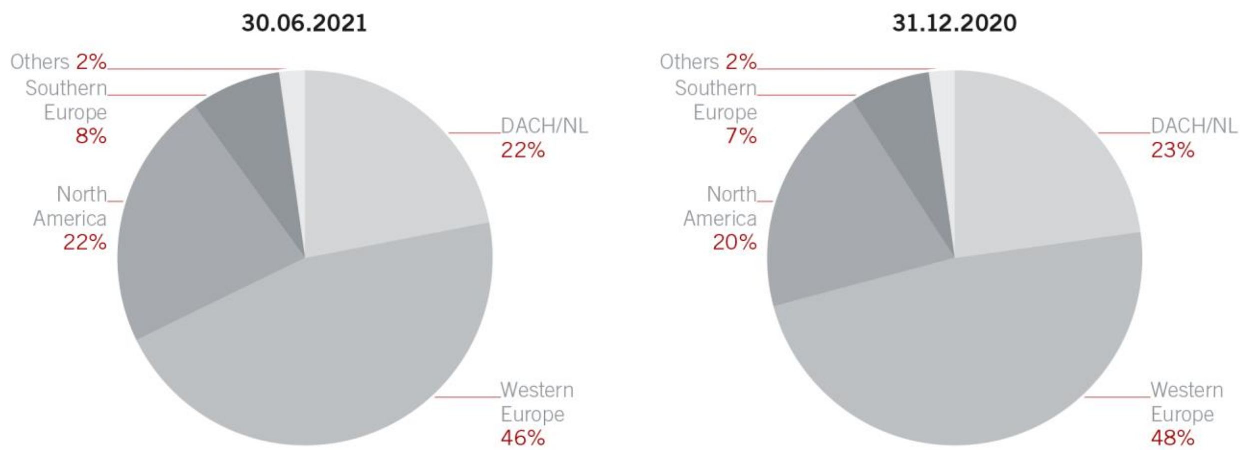
Geographical distribution of the lending and securities portfolio

The geographic distribution of the lending portfolio is in line with BAWAG Group's strategy of focusing on stable economies and currencies. A total of 97% (2020: 97%) of the lending portfolio[1)] and 90% (2020: 91%) of the securities portfolio[2)] is located in Western Europe and North America.

Geographical distribution of the lending portfolio



Geographical distribution of securities



1) The major share of the lending portfolio is allocated to Austria with 64% (Dec 2020: 62%), Germany with 11% (Dec 2020: 14%), United Kingdom with 6% (Dec 2020: 4%), the United States with 4% (Dec 2020: 4%) and France with 1% (Dec 2020: 1%).

2) The major share of the securities portfolio is allocated to the United States with 21% (Dec 2020: 20%), United Kingdom with 17% (Dec 2020: 15%), France with 10% (Dec 2020: 10%), Austria with 7% (Dec 2020: 6%) and Germany with 5% (Dec 2020: 5%).

Lending and securities portfolio by currencies

Consistent with BAWAG Group's overall positioning, the major share of financing is denominated in EUR. The following table depicts the currency distribution of the lending and securities portfolio.

		Book value		in %
in € million	30.06.2021	31.12.2020	30.06.2021	31.12.2020
EUR	44,428	43,589	86.9%	87.9%
USD	3,655	2,968	7.1%	6.0%
GBP	1,806	1,611	3.5%	3.3%
CHF	1,035	1,045	2.0%	2.1%
Others	233	357	0.5%	0.7%
Total	**51,157**	**49,570**	**100.0%**	**100.0%**

Credit quality overview: Lending, provisions, delinquencies and collateral

The following table shows the NPL ratio and provisioning of the lending portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provisioning level and collateral coverage across the portfolios. More than 80% (2020: 80%) of the total exposure can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

		Book value[1)]		in %
in € million	30.06.2021	31.12.2020	30.06.2021	31.12.2020
At amortized cost (gross)	**46,773**	**45,008**	**100.0%**	**100.0%**
Provisions	398	374	0.9%	0.8%
thereof Stage 1	50	48	0.1%	0.1%
thereof Stage 2	78	60	0.2%	0.1%
thereof Stage 3	270	266	0.6%	0.6%
At amortized cost (net)	46,375	44,634	99.1%	99.2%
NPL ratio	–	–	1.5%	1.5%
NPL cash coverage ratio	–	–	60.8%	61.7%
NPL coverage ratio	–	–	87.9%	94.0%

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance

The following table shows the NPL ratio for the segments Retail & SME and Corporates & Public

		Retail & SME		Corporates & Public
in € million	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Total	**19,968**	**18,980**	**13,111**	**13,808**
NPL ratio	2.0%	1.9%	1.1%	1.2%
NPL cash coverage ratio	45.7%	46.3%	44.5%	46.0%
NPL coverage ratio	79.0%	83.0%	94.8%	94.1%

The following table shows the distribution by ratings for the portfolio which is neither overdue nor impaired. The risk profile is stable.

		Total portfolio		Retail & SME		Corporates & Public	
in %	Moody's rating equivalent	**30.06.2021**	31.12.2020	**30.06.2021**	31.12.2020	**30.06.2021**	31.12.2020
Rating class 1	Aaa–Aa2	32.2%	33.1%	0.4%	0.4%	19.4%	20.9%
Rating class 2	Aa3–A1	10.2%	9.9%	7.7%	7.6%	15.1%	13.3%
Rating class 3	A2–A3	10.0%	8.8%	14.3%	14.3%	4.1%	4.6%
Rating class 4	Baa1–Baa3	28.4%	28.9%	44.7%	44.1%	37.3%	38.2%
Rating class 5	Ba1–B1	16.1%	15.9%	26.8%	26.6%	21.2%	20.2%
Rating class 6	B2–Caa2	2.1%	2.0%	3.7%	3.7%	2.6%	2.1%
Rating class 7	Caa3	1.0%	1.4%	2.4%	3.2%	0.2%	0.7%

Received collateral for the NPL portfolio

The numbers below refer to gross NPL (stage 3) exposure.

30.06.2021 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	890	348	158	3	35
Securities	–	–	–	–	–
Off-balance business	14	13	6	0	1
Total	**904**	**361**	**165**	**3**	**36**

The values shown are market values.

31.12.2020 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	871	311	123	4	38
Securities	–	–	–	–	–
Off-balance business	15	8	2	0	0
Total	**886**	**319**	**125**	**4**	**38**

The values shown are market values.

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) as the difference between the contractual cash flows of a financial instrument and the cash flows that a bank expects to receive, which are probability-weighted future outcomes across several scenarios.

The main drivers in the ECL calculation are the stage allocation and lifetime risk parameters, which represent the Bank's expectation. With lifetime denoting the remaining maturity terms of a financial asset, lifetime risk parameters are, namely, probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default (EAD), which are estimated with an internally developed model. The ECL models in BAWAG Group apply to

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

- Contract assets according to IFRS 15

and remained unchanged versus the 2020 annual report.

Lifetime risk parameters

The IFRS 9 lifetime risk parameters consist of a through-the-cycle and a point-in-time component. The through-the-cycle component captures the idiosyncratic risks of the financial instruments, which are rather stable over time and measured by the long-term average of risk parameters. Point-in-time components gauge the systematic risks, typically represented by macroeconomic forecasts and the portfolio credit risk cycle.

Staging criteria and significant increase in credit risk (SICR)

A key feature of ECL estimation under IFRS 9 is the stage allocation of assets. If a financial asset shows a significant increase in credit risk (SICR) or is recognized as credit-impaired, the ECL estimate of the asset is the lifetime expected credit loss (stage 2 or stage 3), and the 12-month expected credit loss otherwise (stage 1).

Stage 1: 12-month ECLs

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

Stages 2 and 3: Lifetime ECLs

When a financial instrument has been in stage 1, but a significant increase of credit risk since the initial recognition is observed, the instrument is transferred to stage 2. If the instrument's credit risk increases further to the point that it is credit-impaired, the instrument is then transferred to stage 3. The measurement of the risk provisions for stage 2 and stage 3 is lifetime expected credit loss, estimated by lifetime risk parameters.

BAWAG Group examines the stage allocation of assets at each reporting date. The transfer criteria from stage 1 to stage 2 are in three pillars:

- quantitative criteria
- qualitative criteria
- backstop criterion

Stage 3: Lifetime ECLs

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or group of financial assets is impaired, and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- a reliable estimate of the loss amount can be made.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counterparty risks is based on expected future recoveries in accordance with the risk analysts' estimates. For counterparty risks that were not individually significant, the loss rate estimates used for Retail and SME portfolios are based on historically observed default and recovery information, customer time in default and LTV information (for mortgage loan exposures) to calculate the applicable level of loan loss provision.

The following table provides an overview of the development of IFRS book values (net of impairments) across stages.

Reconciliation of book values by stage

30.06.2021 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance
Book values for impairments in Stage 1 (without POCI)	**44,230**	**3,845**	**(2,642)**	**1,270**	**46,703**
Lending portfolio	37,313	3,549	(1,866)	1,648	40,644
Securities	6,917	296	(776)	(378)	6,059
Book values for impairments in Stage 2 (without POCI)	**2,128**	**122**	**(283)**	**(226)**	**1,741**
Lending portfolio	2,127	122	(283)	(225)	1,741
Securities	1	–	–	(1)	0
Book values for impairments in Stage 3 (without POCI)	**618**	**123**	**(103)**	**(23)**	**615**
Lending portfolio	618	123	(103)	(23)	615
Securities	–	–	–	–	–
Total POCI	**2**	**–**	**(0)**	**4**	**6**
Lending portfolio	2	–	(0)	4	6
Securities	–	–	–	–	–
Total	**46,977**	**4,089**	**(3,028)**	**1,025**	**49,063**

Only IFRS 9-relevant book values are shown.

Reconciliation of impairments per stage

30.06.2021 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance
Impairments Stage 1 (without POCI)	**66**	**8**	**(6)**	**(1)**	**67**
Lending portfolio	48	5	(4)	(1)	48
Securities	5	1	(1)	(0)	5
Off-balance business	13	2	(1)	–	14
Impairments Stage 2 (without POCI)	**64**	**7**	**(7)**	**16**	**80**
Lending portfolio	60	7	(7)	19	79
Securities	–	–	–	0	0
Off-balance business	4	0	(0)	(3)	1
Impairments Stage 3 (without POCI)	**272**	**52**	**(25)**	**(23)**	**276**
Lending portfolio	266	48	(22)	(22)	270
Securities	–	–	–	–	–
Off-balance business	6	4	(3)	(1)	6
Total POCI	**–**	**–**	**–**	**–**	**–**
Lending portfolio	–	–	–	–	–
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–
Total	**402**	**67**	**(38)**	**(8)**	**423**

Transition of impairments by financial instruments

30.06.2021 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	9	(1)	(9)	(5)	0	6
Securities	–	–	–	–	–	–
Off-balance business	1	(0)	(1)	(0)	0	0
Total	**10**	**(1)**	**(10)**	**(5)**	**0**	**6**

31.12.2020 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	29	60	1	30	0	1
Securities	–	–	0	–	–	–
Off-balance business	2	–	0	–	0	0
Total	**31**	**60**	**1**	**30**	**0**	**1**

Distribution of book values by impairment stage and rating

The numbers below refer to IFRS book values (net of stage 1 to 3 provisions).

30.06.2021 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**15,690**	**5,042**	**4,315**	**13,796**	**7,074**	**655**	**131**	**–**	**46,703**
Lending portfolio	13,280	3,380	3,176	12,999	7,023	655	131	–	40,644
Securities	2,410	1,662	1,139	797	51	–	–	–	6,059
Book values for impairments in Stage 2 (without POCI)	**0**	**6**	**5**	**62**	**831**	**409**	**428**	**–**	**1,741**
Lending portfolio	0	6	5	62	831	409	428	–	1,741
Securities	–	–	–	–	–	0	–	–	0
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**615**	**615**
Lending portfolio	–	–	–	–	–	–	–	615	615
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Lending portfolio	–	–	–	–	–	–	–	6	6
Securities	–	–	–	–	–	–	–	–	–
Total	**15,690**	**5,048**	**4,320**	**13,858**	**7,905**	**1,064**	**559**	**621**	**49,065**

Only IFRS 9-relevant book values are shown.

31.12.2020 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**14,482**	**4,656**	**4,220**	**13,665**	**6,521**	**555**	**131**	**–**	**44,230**
Lending portfolio	10,958	3,181	3,229	12,784	6,475	555	131	–	37,313
Securities	3,524	1,475	991	881	46	–	–	–	6,917
Book values for impairments in Stage 2 (without POCI)	**1**	**5**	**10**	**102**	**1,090**	**427**	**493**	**–**	**2,128**
Lending portfolio	1	5	10	102	1,090	426	493	–	2,127
Securities	–	–	–	–	–	1	–	–	1
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**618**	**618**
Lending portfolio	–	–	–	–	–	–	–	618	618
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Lending portfolio	–	–	–	–	–	–	–	2	2
Securities	–	–	–	–	–	–	–	–	–
Total	**14,482**	**4,661**	**4,230**	**13,767**	**7,611**	**982**	**625**	**620**	**46,978**

Only IFRS 9-relevant book values are shown.

Expected credit loss

Expected credit losses of BAWAG Group are based on a probability-weighted expected outcome as IFRS 9 stipulates: the ECL estimates under three different scenarios are aggregated with scenario weights to constitute a final ECL estimate. The macroeconomic scenario is comprised of forecasts of major macroeconomic variables: among all variables, BAWAG Group uses the GDP growth as a main source of forward-looking information to consider in ECL estimates, with additional variables such as inflation, unemployment rate or housing prices in a complementary role.

The distribution among three scenarios (baseline 40%, optimistic 30% and pessimistic 30%) allows the Bank to cover the broad range of future expectations and has been chosen as the most appropriate within the industry standards. The following table provides an overview of GDP growth assumptions and scenario weights applied to determine ECL.

Eurozone GDP growth assumptions by scenario

GDP growth in %	2020	2021	2022	2023
Optimistic (30% weight)	(6.7)%	5.4%	5.6%	2.2%
Baseline (40% weight)	(6.7)%	4.3%	4.0%	2.5%
Pessimistic (30% weight)	(6.7)%	3.0%	(0.1)%	2.9%

Sensitivity analysis

The following table illustrates the weighted impairment allowance as well as the results of the sensitivity analysis where ECLs are measured under each scenario with 100% weight. The sensitivity analysis is based on the baseline ECL excluding the applied management overlay as described in the COVID-19 section of the Risk Report. As of half-year 2021, an additional ECL management overlay of € 70 million is held to address the uncertainties of further development of the COVID-19 pandemic. This overlay would fully cover the additional provisioning requirements in the event that the pessimistic scenario does materialize.

			ECL scenario change		
30.06.2021 in € million	ECL incl. management overlay	ECL excl. management overlay	100% optimistic	100% baseline	100% pessimistic
Stage 1 & Stage 2 impairments	147	77	(18)	(6)	27

			ECL scenario change		
31.12.2020 in € million	ECL incl. management overlay	ECL excl. management overlay	100% optimistic	100% baseline	100% pessimistic
Stage 1 & Stage 2 impairments	130	92	(11)	(2)	17

Forborne loans and forbearance measures

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

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

By implementing forbearance measures that are appropriate in terms of time and scope, BAWAG Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards.

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

For customers who have made use of a payment deferral in connection with the COVID-19 pandemic crisis falling under the EBA definition of a legislative or non-legislative moratorium, the Bank has refrained from classifying these exposures as forborne.

Collateral and valuation of residential and commercial real estate

The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. Valuation of real estate properties in other countries is also done by independent experts according to international standards. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich)* for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and by MAC (MeilleursAgents.com) for French residential properties. The values of the properties in the Netherlands are periodically updated based on the CBS index (Centraal Bureau voor de Statistiek) and the real estate properties situated in Germany are periodically checked with the help of the market volatility concept.

The values of commercial properties are appraised individually by experts in the centralized Commercial Real Estate Appraisal team, by selected external appraisers commissioned by BAWAG Group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

All types of acceptable collateral are listed in the BAWAG Group Collateral Catalogue. Adequate haircuts are defined for each type of collateral.

Workout departments

The workout and collection departments (retail/non-retail) are responsible for the processing, administration and restructuring or collection of troubled and defaulted loan commitments. The primary objective is to minimize losses and to maximize recoveries.

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

Early recognition of troubled assets

Customers that trigger defined early-warning signals for various reasons (e.g. general deterioration of creditworthiness, significant decline in the stock price, rise in CDS spreads, negative press reports/ad-hoc publicity, unusual risk concentrations, etc.) are placed on the watch list and discussed in the Watch Loan Committee, which is made up of members of the relevant business and risk units. This committee develops and elaborates on risk mitigation actions for single exposures and oversees consistent monitoring of all cases with an elevated probability of default.

23 | Market risk

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

The primary market risk components for BAWAG Group are interest rate and credit spread risk. Both risk categories are measured and monitored via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting.

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk and credit spread risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the BAWAG Group level. Risk Controlling reports to the SALCO on a daily basis as well as monthly at the BAWAG Group level on limit utilization and the distribution of risk.

The target interest rate risk structure defined by the SALCO is implemented by the Treasury & Markets division.
BAWAG Group uses interest rate derivatives:

- to implement the interest risk strategy within the requirements and limits defined by the SALCO
- to manage the sensitivity of the valuation result and the revaluation reserve
- to hedge the economic risk position, thereby taking the accounting treatment into consideration

BAWAG Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to mitigate market risks:

- **Micro fair value hedge:** Hedging of financial assets or financial liabilities against changes in their fair value.
- **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. As of June 2021, approximately 28% (31 Dec 2020: 28%) of the total volume of sight deposits was allocated to a portfolio fair value hedge.

In addition, contractually agreed interest rate caps and/or floors embedded in financial assets (e.g. loan receivables or securities) or liabilities (e.g. savings deposits) are designated to portfolio fair value hedge accounting in order to mitigate changes in the fair value of these instruments resulting from changes in interest rates. The decision on the amount to be designated to portfolio fair value hedge accounting is determined using a bottom layer approach and made in the context of the overall interest rate risk position and limit framework.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point (0.01%). The following table depicts BAWAG Group's interest rate risk sensitivities as of 30 June 2021 on the basis of the PVBP concept:

Interest rate sensitivity

30.06.2021 in € thousand	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	(144)	(124)	(15)	(40)	1,263	59	999
USD	(41)	(53)	(21)	1	14	(9)	(109)
CHF	2	7	(4)	(3)	(5)	(1)	(4)
GBP	20	8	2	(2)	1	0	29
Other currencies	(5)	(7)	(1)	0	0	0	(14)
Total	**(168)**	**(169)**	**(39)**	**(44)**	**1,273**	**49**	**901**

31.12.2020 in € thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	8	(271)	(289)	32	832	394	705
USD	(7)	(76)	(31)	(11)	28	0	(98)
CHF	4	2	(1)	(5)	(9)	(7)	(15)
GBP	13	(8)	(5)	(2)	0	0	(3)
Other currencies	(5)	(17)	(6)	0	0	0	(28)
Total	**13**	**(370)**	**(331)**	**13**	**851**	**387**	**561**

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by BAWAG Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of BAWAG Group along with the breakdown by accounting categories impacting the Profit or Loss Statement and other comprehensive income:

Credit spread sensitivity

in € thousand	30.06.2021	31.12.2020
Total portfolio	(2,632)	(3,072)
Financial assets at fair value through profit or loss	(120)	(144)
Financial assets at fair value through other comprehensive income	(1,685)	(1,895)
Financial assets at amortized cost	(827)	(1,033)

Market risk in the trading book

BAWAG Group runs no active trading book. No trading activities are currently planned for the entire Group.

24 | Liquidity risk

Liquidity risk is the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk) or only being able to meet these obligations at higher refinancing costs (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold or that doing so is only achievable at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The objective of BAWAG Group's liquidity risk management framework is to ensure that BAWAG Group can fulfill its obligations at all times and to manage liquidity risk within the risk appetite.

BAWAG Group's overall strategy has an explicit commitment to a deposit-based funding strategy. Retail and corporate savings products have been the core part of the funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. The deposit base is supplemented with a diversified strategy of wholesale funding. BAWAG Group has issued both unsecured bonds as well as bonds secured by mortgages.

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The liquidity buffer is kept as a preventive measure against liquidity risk. The liquidity buffer consists of a portfolio of liquid assets which can be used to generate cash in a stress situation in order to prevent the illiquidity of the Bank. BAWAG Group's liquidity buffer only includes assets that can be liquidated with minimal execution risk within 30 days. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the liquidity buffer composition based on the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in € million	30.06.2021	31.12.2020
Balances at central banks	11,095	9,756
Securities eligible for Eurosystem operations	269	518
Other assets eligible for Eurosystem operations	100	63
Short-term liquidity buffer	**11,463**	**10,337**
Other marketable securities	3,111	3,315
Total	**14,575**	**13,652**

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in a strong liquidity coverage ratio (LCR) of 265% at the end of H1 2021 (31 Dec 2020: 231%). BAWAG Group thereby significantly exceeds the regulatory LCR requirement.

The first half of 2021 was characterized by a solid liquidity position with stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Considering the stability of retail deposits that was proved during the COVID-19 crisis, the funding strategy continues to be focused on this funding source.

BAWAG Group has decided to participate in the TLTRO III facility despite its already strong liquidity position as an economically attractive measure to pre-position liquidity and to support lending to the real economy. As of 30 June 2021, BAWAG Group utilized € 6.4 billion of funding under the ECB's TLTRO III facility compared to € 5.8 billion as of 31 December 2020. In addition to the stable deposit base, in the first half of 2021 the Bank successfully placed € 1 billion in mortgage covered bonds (March € 500 million; May € 500 million), which again proved BAWAG Group's good capital markets access and the positive perception among investors.

25 | Operational risk

Operational risk is present in virtually all of the Company's transactions and activities and is defined as the risk of loss resulting from inadequacy or failure of internal processes, people, systems or external events. The definition of operational risk explicitly includes legal risk, compliance risk, model risk, fraud risk, conduct risk as well as third-party risk, outsourcing risk and information and communication risk. Information/cyber security and the protection including the appropriate use of customer data remain important factors in retaining customer trust. As IT systems, IT networks and the sharing of data become increasingly important to both banks and customers, there is a growing focus on how this is safeguarded.

Governance:
A clear organizational structure and authorization levels form the basis of operational risk governance. Operational risks are managed by established Group-wide processes for loss data collection via OpRisk Monitor (ORM), a yearly risk assessment process for all divisions and subsidiaries, uniform materiality and risk assessment of outsourcing activities, a sound product implementation process (PIP) as well as monthly key risk indicators. Upon exceedance of defined thresholds, e.g. red KRI, high risks identified, mandatory measures for risk mitigation are agreed and monitored. In addition, BAWAG Group works continuously to bolster defenses against cyberattacks. The selected security approach is based on regulatory requirements and the security policy set. A consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) as well as a security control set including a variety of organizational and technological measures are in place to manage and mitigate BAWAG Group's operational risk. Aligned teams in the first and second line of defense ensure the implementation and effectiveness of these measures.

Risk identification, assessment and mitigation:
The losses resulting from operational risk are collected in a centrally administrated, web-based database within clearly defined regulations and processes. The collected data are analyzed to identify patterns/clusters and faulty processes.

Using the RCSAs framework, all organizational units and subsidiaries identify and assess their material processes, operational risks, the risk of disregarding regulatory requirements and the effectiveness of their control measures on a yearly basis via a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is mandatory.

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

According to Austrian Banking Act section 39 paragraph 6, credit institutions must define appropriate criteria and procedures in writing taking into consideration the nature, scale and complexity of their business activities. In addition, a regular update is necessary to avoid the risk of disregarding guidelines as well as to reveal the associated risks and to keep such risks to a minimum (“BWG compliance”).

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

BAWAG Group continues to invest in the awareness of staff and the resilience and security of systems, ensuring that customer data remains safe despite the significant pace of change in technological trends. In addition, the Group also focuses on supporting suppliers in meeting the respective requirements for cybersecurity in our supply chain. To ensure collaboration when it comes to security, BAWAG Group is an active member of the Austrian Trust Circle – Finance and focuses on close exchange with other banks as well.

The Managing Board receives regular reports about current OpRisk developments, as well as activities to protect and assess the cybersecurity in the Non-Financial Risk and ESG Committee (NFR & ESGC).

Risk quantification:
BAWAG Group applies the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 CRR to assess operational risk. However, the realized operational risk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The operational risk RWAs are assigned to the segments based on revenues.

For the purpose of ICAAP, a standardized approach is used to calculate the normative and economic perspective for OpRisk. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms. The SMA is calculated based on the business indicator, business indicator component and internal loss multiplier. The method of calculation used is based exactly on the guidelines and covers the expected and unexpected loss.

The normative perspective is based on the P&L impact and qualitative scenarios based on the historic OpRisk losses and the consideration of the business strategy. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms.

Governance and risk mitigation concerning COVID-19:
BAWAG Group has responded to the current situation regarding the COVID-19 virus with an integrated action plan.

Measures taken since the beginning of the COVID-19 crisis:

- Business trips and events remain limited until further notice
- Implementation of instructions for repeated and correct hand washing and positioning of dispensers with disinfectant
- Permission to work more from home, test operation of remote working for entire areas and thus approval for remote working first, where technically possible
- Definition of risk groups such as the elderly or people with previous illnesses to work strictly from home
- Switch to conference calls instead of face-to-face meetings
- Call for customer vigilance against phishing attacks in the wake of COVID-19
- Awareness-raising in customer communication for numerous cashless payment options (VPAY, etc.), digital banking, both on the website and in the call center

- Distribution of respiratory masks and disinfectant to the headquarters and branches, as well as spacers for all branches
- Implementation of rules of conduct concerning COVID-19
- Registration and coordination of company vaccination via Austrian Chamber of Commerce based on the respective vaccination strategy of each federal state

The measures are continuously evaluated by a task force in close coordination with the Managing Board of BAWAG Group and brought in line with the current government measures and regulations.

26 | Other risks

Reputation risk

Reputation risk is defined as the potential damage or harm of the Bank's image in the eyes of the interested public (capital investors/lenders, employees, customers, the press, etc.) regarding competence, integrity and reliability. 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 a simplified VaR model has been 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 reputation risk, a corresponding weighting of the quantification results was carried out.

The Group actively avoids occurrence of reputation risks with a sound risk management culture, ongoing improvement of risk management and compliance with internal and external regulations. Furthermore, the Group has established a sound complaint management system, and closely follows potential fraud and other operational risk events which might affect public appreciation.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential write-offs on the carrying amount of investments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. Participation risk is considered non-material.

Impairment tests are conducted every year to validate the values of the equity investments in BAWAG Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. P&L, balance sheet and cash flow) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the entity based on BAWAG Group's shareholding is then compared with the carrying amount of the investment.

In addition to the procedure described above, there are simplified procedures for very small investments or if the book value is covered by the proportionate equity or other value indicators, such as the substance value in the case of real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Credit Risk Management team.

Business risk

Business risk refers to the risk that the Bank's business strategy does not adequately reflect trends in external factors, is not effectively executed or fails to respond in a timely manner to external environments or changes in stakeholder behaviors and expectations. The Group faces risks due to the changing regulatory and competitive environments in the financial services sector. The Bank strives to play an active role in the current transformation of the European banking industry. Austria as our core market builds the basis for further organic and inorganic growth in the DACH/NL region. The multi-brand and multi-channel distribution approach together with targeted use of analytics ensures the capability to adapt product offerings to changes in customer behavior and needs at an early stage. The Group assesses and monitors the impact of the business risk implications of new business, product entries and other business initiatives as part of the business planning processes and stress testing scenarios.

Real estate risk

Real estate risk results from a negative change in value and/or proceeds from proprietary real estate for BAWAG Group. With regard to the Risk Self-Assessment Process, the Group's real estate portfolio is analyzed in detail regarding its assets as well as investment properties and discussed with the responsible risk managers if any losses are expected within the upcoming year.

Pension risk

Pension risk refers to the risk that the provisions for pensions are not sufficiently high to cover potential losses arising from differences between actual pensions and a specific target, which could be related to a specific replacement rate, pension pay or life expectancy. Pension provisions of the Group are calculated by an external actuary according to the projected unit credit method. All actuarial assumptions used are based on past experience and are adjusted for expected changes.

The discount factor is based on current interest rates. Risks related to movements in the discount factor are considered in the calculation of market risk.

Main risks for the Group relating to pension obligations except interest rate risk include higher than expected salary increases and changes in demographical assumptions.

The majority of new pension plans are defined contribution plans where the final risk is with a pension fund. Obligations from defined benefit plans relate to pensions plans implemented in the past and the majority of beneficiaries is already in retirement. As such, there is limited risk that salary increases for active employees will have an impact on the provision.

STATEMENT OF ALL LEGAL REPRESENTATIVES

“We confirm to the best of our knowledge that the condensed consolidated Half-Year Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the Half-Year Group Management Report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated Half-Year Financial Statements and of the principal risks and uncertainties for the remaining six months of the financial year.”

25 July 2021

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Managing Board

Sat Shah
Member of the Managing Board

David O’Leary
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Guido Jestädt
Member of the Managing Board

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	Net profit / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit per individual share (diluted) of the stock.
Average interest-bearing assets	Month-end interest-bearing assets / number of months	Average of month-end interest-bearing assets within the quarter or the year is used for calculating net interest margin and risk cost ratio (see KPIs below)
Basic earnings per share	(Net profit - AT1 coupon) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per individual share of the stock.
Book value per share	Common equity (excluding AT1 capital and dividends) / number of shares outstanding	Book value per share represents the total amount of common equity divided by the number of shares outstanding at the end of the period.
Common equity	Equity attributable to the owners of the parent	Common equity as presented in the consolidated financial statements
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored to ensure compliance with regulatory minimum requirements. Before any business opportunities are entered into, they are thoroughly assessed with regard to their impact on the CET1 ratio.
Core revenues	The total of net interest income and net fee and commission income	Core revenues consists of the line items net interest income and net fee and commission income and demonstrate the success of the bank in its core activities.
Cost-income ratio (CIR)	Operating expenses / operating income	The cost-income ratio shows the company's operating expenses in relation to its operating income. The ratio gives a clear view of operational efficiency. BAWAG Group uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
Customer loans	Customer loans measured at amortized cost	The book value of customer loans measured at amortized cost.
Diluted earnings per share	(Net profit - AT1 coupon) / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per individual share (diluted) of the stock.
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks	Interest-bearing assets comprise the line items Financial assets and Assets at amortized cost excluding Assets at central banks
Leverage ratio	Tier 1 capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and expresses the relationship between the bank's Tier 1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Liquidity coverage ratio (LCR)	Liquid assets / net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax that is available for distribution to the shareholders in absolute amounts for the respective period as presented in the consolidated financial statements.
Non-performing loans (NPL) ratio	Non-performing loans / Exposure	The NPL ratio is a ratio to demonstrate the proportion of loans that have been classified as non-performing in relation to the entire credit risk exposure (on-balance and off-balance sheet receivables). The ratio reflects the quality of the portfolio and of the Group's credit risk management.
Non-performing loans (NPL) coverage ratio	Stage 3 incl. prudential filter and collateral / NPL exposure economic	The total of stage 3 impairments including prudential filter and collateral relative to the NPL exposure economic
Non-performing loans (NPL) cash coverage ratio	Stage 3 incl. prudential filter / NPL exposure economic	The total of stage 3 impairments including prudential filter relative to the NPL exposure economic
Off-balance business	CCF-weighted off-balance business	The off-balance business in the risk report is CCF-weighted.
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-provision profit	Operating income less operating expenses	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average diluted number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per individual share (diluted) of the stock.
Return on common equity (RoCE)	Net profit / average common equity excluding AT1 capital and dividends and dividend accruals;	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity-related or asset-related). Return on common equity and return on tangible common equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk-weighted assets and balance sheet size of the respective segment.
Return on tangible common equity (RoTCE)	Net profit / average tangible common equity excluding AT1 capital and dividends and dividend accruals;	

Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for a bank and includes both on-balance and off-balance positions. When calculating the amount, the bank can consider risk-mitigating elements (e.g. collateral) and has to derive regulatory risk weights for each position depending on the (external) credit rating of the counterparty or customer. Risk-weighted assets are used as the denominator for calculating the CET1 ratio (see above). "Fully loaded" refers to the full application of the CRR without any transitional rules.
Risk costs / interest-bearing assets; (risk cost ratio)	Provisions and loan loss provisions, impairment losses and operational risk (total risk costs) / average interest-bearing assets	This ratio is a measure for the quality of credit risk management and the loan portfolio itself. It provides a relative view of the risk costs for the period based on the average interest-bearing assets and allows benchmarking with other banks. Low risk costs may result from a high collateralization and/or a close monitoring of the credit rating of the customers. As a result, this implies that there are only few actual credit losses and little need for provisioning.
RWA density	Risk-weighted assets / total assets	The RWA density is a metric to obtain an "average risk weight" for a bank's balance sheet, i.e. the bank's total risk-weighted assets (see above) compared to the total assets. The ratio indicates the average risk weightings of the assets based on their regulatory assessment, which can be impacted by asset quality, the collateralization level or the applied models for assessing the risk weights.
Tangible book value per share	Tangible common equity (excluding AT1 capital and dividends) / number of shares outstanding	Tangible book value per share represents the total amount of common equity less intangible assets divided by the number of shares outstanding at the end of the period.
Tangible common equity	Common equity reduced by the carrying amount of intangible assets	Tangible common equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see above).
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other instruments (e.g. Additional Tier 1 and Tier 2 instruments) not falling within the strict Common Equity Tier 1 definition. The total capital ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. However, CET1 capital is of higher significance as it is also the base for prudential thresholds such as the SREP requirement. Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio.
Total capital ratio	Total capital / risk-weighted assets	
Value-at-risk (VaR)	Measure of risk of investments	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

OWNER AND PUBLISHER

BAWAG Group AG
Wiedner Gürtel 11, A-1100 Vienna, Austria
Companies Registry number: 269842b
EU VAT number: ATU72252867
Telephone: +43 (0)5 99 05-0
Internet: www.bawaggroup.com

Investor Relations:
investor.relations@bawaggroup.com

Media:
communications@bawaggroup.com

Typesetting:
In-house using firesys