



BAWAG Group AG

(Vienna, Republic of Austria)

EUR 300,000,000 Undated Non-Cumulative Fixed to Reset Rate Additional Tier 1 Notes of 2018 with a First Reset Date on 14 May 2025

ISIN XS1806328750, Common Code 180632875, WKN A19Y83

Issue Price: 100 per cent.

This prospectus (the "**Prospectus**") relates to the issue of the EUR 300,000,000 Undated Non-cumulative Fixed to Reset Rate Additional Tier 1 Notes with a First Reset Date on 14 May 2025 in the denomination of EUR 200,000 each (the "**Notes**"), to be issued by BAWAG Group AG (the "**Issuer**", "**BAWAG Group AG**", or the "**Company**" and together with its subsidiaries, "**BAWAG Group**" or the "**Group**") on 25 April 2018 (the "**Issue Date**"). The issue price of the Notes is 100 per cent. of their nominal amount (the "**Issue Price**").

The Notes will bear distributions on the Current Principal Amount (as defined below) at the rate of 5.000 per cent. *per annum* (the "**First Rate of Distributions**") from and including 25 April 2018 (the "**Distribution Commencement Date**") to but excluding 14 May 2025 (the "**First Reset Date**") and thereafter at the relevant Reset Rate of Distributions from and including each Reset Date to but excluding the next following Reset Date. "**Reset Date**" means the First Reset Date and each 5th anniversary thereof for as long as the Notes remain outstanding. The "**Reset Rate of Distributions**" for each reset period will be the sum of the Reference Rate and the Margin, such sum converted from an annual basis to a semi-annual basis in accordance with market convention (both as defined in the terms and conditions of the Notes (the "**Terms and Conditions**")). Distributions will be scheduled to be paid semi-annually in arrear on 14 May and 14 November in each year, commencing on 14 November 2018 (first long coupon).

Distribution payments are subject to cancellation, in whole or in part, and, if cancelled, are non-cumulative and distribution payments in following years will not increase to compensate for any shortfall in distribution payments in any previous year.

"**Current Principal Amount**" will mean initially EUR 200,000 (the "**Original Principal Amount**") which from time to time, on one or more occasions, may be reduced upon occurrence of a Trigger Event (as defined in the Terms and Conditions) by a write-down and, subsequent to any such reduction, may be increased by a write up, if any (up to the Original Principal Amount) subject to limitations and conditions (as defined in the Terms and Conditions). If the relevant resolution authority exercises write-down and conversion powers, either the principal amount of the Notes will be (permanently) written down or the Notes will be converted to CET 1 instruments.

The Notes are perpetual and have no scheduled maturity date. The Notes are redeemable by the Issuer at its discretion on the First Reset Date and on each Distribution Payment Date thereafter or in other limited circumstances and, in each case, subject to limitations and conditions as described in the Terms and Conditions. The "**Redemption Amount**" per Note will be the Current Principal Amount per Note.

The Notes, as to form and content, and all rights and obligations of the holders and the Issuer will be governed by the laws of the Federal Republic of Germany ("**Germany**"). The status provisions of the Notes will be governed by, and will be construed exclusively in accordance with, the laws of the Republic of Austria ("**Austria**").

The Notes will be issued in bearer form and initially be represented by a Temporary Global Note without coupons which will be exchangeable for Notes represented by a Permanent Global Note without coupons (both as defined in the Terms and Conditions).

This Prospectus constitutes a prospectus within the meaning of Article 5(3) of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (as amended, *inter alia*, by Directive 2014/51/EU) (the "**Prospectus Directive**"). The Issuer will prepare and make available on the website of the Luxembourg Stock Exchange (www.bourse.lu) an appropriate supplement to this Prospectus if at any time the Issuer is required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities (*Loi du 10 juillet 2005 relative aux prospectus pour valeurs mobilières*), as amended (the "**Luxembourg Prospectus Law**"). This Prospectus will be published in electronic form together with all documents incorporated by reference on the website of the Luxembourg Stock Exchange (www.bourse.lu).

This Prospectus has been approved by the *Commission de Surveillance du Secteur Financier*, Luxembourg ("**CSSF**") in its capacity as competent authority under the Luxembourg Prospectus Law. By approving this Prospectus, the CSSF gives no undertaking as to the economic and financial opportuneness of the transaction and the quality or solvency of the Issuer in line with the provisions of Article 7(7) of the Luxembourg Prospectus Law.

Restrictions on Marketing and Sales to Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the European Economic Area ("EEA") has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs Regulation.

Further, the Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "Restrictions on Marketing and Sales to Retail Investors" on pages 4 et seq. of this Prospectus for further information.

On each Reset Date the Reset Rate of Distributions payable under the Notes is calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of five years, which appears on the Reuters Screen Page ICESWAP2 under the heading "EURIBOR BASIS – EUR" and above the caption "11:00 AM FRANKFURT" as of 11.00 a.m. (Frankfurt time) on the relevant Reset Determination Date, and which is provided by ICE Benchmark Administration (the "Administrator"). As at the date of this Prospectus, the Administrator does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("ESMA") pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "Benchmark Regulation"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that ICE Benchmark Administration is not currently required to obtain authorisation or registration.

The annual swap rate for swap transactions denominated in Euro with a term of five years, which appears on the Reuters Screen Page ICESWAP2 under the heading "EURIBOR BASIS – EUR" is calculated with reference to the Euro Interbank Offered Rate ("EURIBOR"), which is provided by the European Money Market Institute ("EMMI"). As at the date of this Prospectus, the EMMI does not appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 the Benchmark Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that the EMMI is not currently required to obtain authorisation or registration.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to the official list of the Luxembourg Stock Exchange (the "Official List") and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of MiFID II.

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider the suitability of the Notes as an investment in the light of their own circumstances and financial condition.

Investing in the Notes involves certain risks. Please review the section entitled "2 Risk Factors" beginning on page 20 of this Prospectus.

Global Coordinator

Citigroup

Joint Lead Managers

Citigroup

Morgan Stanley

UBS Investment Bank

RESPONSIBILITY STATEMENT

The Issuer having its registered office in Vienna, Austria, accepts responsibility for the information contained in this Prospectus and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer further confirms that: (i) this Prospectus contains all information with respect to the Issuer and its fully consolidated subsidiaries taken as a whole (the "**BAWAG Group**") and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Issuer and of the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the BAWAG Group and of the rights attached to the Notes; (ii) the statements contained in this Prospectus relating to the Issuer, the BAWAG Group and the Notes are in every material particular true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the BAWAG Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

NOTICE

No person is authorised to give any information or to make any representation other than that contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers (as defined in the section "*8 Subscription and Sale*").

This Prospectus should be read and understood in conjunction with any supplement hereto and with any documents incorporated herein or therein by reference.

This Prospectus contains certain forward-looking statements, including statements using the words "believes", "anticipates", "intends", "expects" or other similar terms. This applies in particular to statements under section "*5 Description of the Issuer*" and statements elsewhere in this Prospectus relating to, among other things, the future financial performance, plans and expectations regarding developments in the business of the BAWAG Group. These forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that may cause the actual results, including the financial position and profitability of the BAWAG Group, to be materially different from or worse than those expressed or implied by these forward-looking statements. The Issuer does not assume any obligation to update such forward-looking statements and to adapt them to future events or developments.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and BAWAG Group. This Prospectus does not constitute an offer of Notes or an invitation by or on behalf of the Issuer or the Joint Lead Managers to purchase any Notes. Neither this Prospectus nor any other information supplied in connection with the Notes should be considered as a recommendation by the Issuer or the Joint Lead Managers to a recipient hereof and thereof that such recipient should purchase any Notes.

This Prospectus reflects the status as of its date. The sale and delivery of the Notes and the distribution of this Prospectus may not be taken as an implication that the information contained herein is accurate and complete subsequent to the date hereof or that there has been no adverse change in the financial condition of the Issuer since the date hereof.

To the extent permitted by the laws of any relevant jurisdiction, neither any Joint Lead Manager nor any of its respective affiliates nor any other person mentioned in this Prospectus, except for the Issuer, accepts responsibility for the accuracy and completeness of the information contained in this Prospectus or any document incorporated by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accept any responsibility for the accuracy and completeness of the information contained in any of these documents. The Joint Lead Managers have not independently verified any such information and accept no responsibility for the accuracy thereof.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required to inform themselves about and to observe any such restrictions. For a description of the restrictions see "*8 Subscription and Sale*".

In this Prospectus, all references to "€", "EUR" or "Euro" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED, AS THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE OF THE RECEIPT OF THE PROCEEDS OF THE ISSUE BY THE ISSUER AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS, AND RULES.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Notes issued pursuant to the Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products ("**PRIIPs Regulation**") became directly applicable in all member states of the European Economic Area ("**EEA**") and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs Regulation and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and the (ii) offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write-down or convertible securities such as the Notes.

The Joint Lead Managers are required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase any Notes (or a beneficial interest in the Notes) from the Issuer and/or the Joint Lead Managers each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Joint Lead Managers that:

- (1) it is not a retail investor;
- (2) whether or not it is subject to the Regulations it will not:
 - (A) sell or offer the Notes (or any beneficial interest therein) to retail investors; or
 - (B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail investor (in each case within the meaning of MiFID II). In selling or offering the Notes or making or approving communications relating to the Notes it may not rely on the limited exemptions set out in the PI Instrument; and
- (3) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

For the purposes of this provision: the expression "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (**Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive.

Each prospective investor further acknowledges that no key information document (**KID**) under PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs Regulation.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that:

- (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and

- (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate.

Any person subsequently offering, selling or recommending the Notes (a "**Distributor**") should take into consideration the manufacturers' target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

MIFID II PRODUCT GOVERNANCE

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**Distributor**") should take into consideration the manufacturers' target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts and events. They are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references and assumptions. This applies, in particular, to statements in this Prospectus containing information on future earning capacity, plans and expectations regarding the Issuer's and BAWAG Group's business and management, its growth and profitability, and general economic and regulatory conditions and other factors that affect it.

Forward-looking statements in this Prospectus are based on current estimates and assumptions that the Issuer makes to the best of its present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including BAWAG Group's financial condition and results of operations, to differ materially from and be worse than results that have expressly or implicitly been assumed or described in these forward-looking statements. BAWAG Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate. Accordingly, investors are strongly advised to read the following sections of this Prospectus: "*2 Risk Factors*", "*5 Description of the Issuer*" and "*6 Regulation and Supervision*". These sections include more detailed descriptions of factors that might have an impact on BAWAG Group's business and the markets in which it operates.

In light of these risks, uncertainties and assumptions, future events described in this Prospectus may not occur. In addition, none of the Issuer or the Joint Lead Managers assumes any obligation, except as required by law, to update any forward-looking statement or to conform these forward-looking statements to actual events or developments.

INFORMATION FROM THIRD PARTIES

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

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

- Eurostat, "Total financial assets and liabilities of households in EU countries, 2016, in % of GDP - Financial balance sheets", available at <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>;
- Eurostat, EU-SILC survey, "Distribution of population by tenure status", available at http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_lvho02&lang=en;
- Eurostat, "ICT usage in households and by individuals, Individuals - internet activities", available at <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>;
- International Monetary Fund, "World Economic Outlook Database", October 2017, available at <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx> 1;
- Statista, "Leading banks in Austria in 2016", by total assets, 2017, available at <https://www.statista.com/statistics/693476/leading-banks-assets-austria/>;
- Statistisches Jahrbuch der Stadt Wien (Statistical Yearbook of the City of Vienna), 2017, available at <https://www.wien.gv.at/statistik/publikationen/jahrbuch.html>;
- Worldbank, "Domestic credit provided by financial sector (% of GDP), International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates", 2017, available at <https://data.worldbank.org/indicator/FS.AST.DOMS.GD.ZS>;
- VÖL Verband österreichischer Leasing Gesellschaften "Leasing in Österreich Berichtsperiode 2016 Management Summary" ("VÖL Leasing in Austria 2016").

Irrespective of the assumption of responsibility for the contents of this Prospectus by the Issuer, the Issuer has not verified any figures, market data and other information used by third parties in their studies, publications and financial information, or the external sources on which the Issuer's estimates are based. The Issuer therefore assumes no liability for and offers no guarantee of the accuracy of the data from studies and third-party sources contained in this Prospectus and/or for the accuracy of data on which the Issuer's estimates are based.

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

Information contained on any website mentioned in this Prospectus, including the website of BAWAG Group, is not incorporated by reference in this Prospectus and is not part of this Prospectus.

Alternative Performance Measures

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

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

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

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

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

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

	As of and for the financial years ended December 31,	
	2017	2016
	(unaudited, unless otherwise indicated)	
RoE.....	13.9%	15.9%
RoE (@12% CET 1).....	15.3%	16.9% ¹⁾
RoTE.....	16.0%	17.9%
RoTE (@12% CET 1).....	17.9%	18.9% ¹⁾
Net Interest Margin.....	2.23%	2.31%
Cost-Income Ratio.....	41.6% ²⁾	44.8%
Core Revenues (audited, in € millions).....	1,008.2	925.1 ³⁾
Balance Sheet Leverage.....	12.8x	12.7x

¹⁾ Number has been adjusted from the number originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios resulting in a retrospective increase of the associated risk-weighted assets. Please see "5.9.4 On-site Inspection by the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment" for further information regarding the on-site inspection.

²⁾ In 2017, BAWAG Group initiated a long-term incentive program ("LTIP") for members of the Management Board and the senior leadership team. The performance-vested part (75%) was recognised in 2017. This recognition is excluded in the calculation of the cost-income ratio. The Cost-Income Ratio including the LTIP would have been 46.5%.

³⁾ In BAWAG Group's financial statements as of and for the financial year ended 31 December 2016, BAWAG Group reported Core Revenues of EUR 922.9 million. This figure was adjusted to EUR 925.1 million in BAWAG Group's financial statements as of and for the financial year ended 31 December 2017. This adjustment was a consequence of the purchase price allocation relating to the acquisition of start:gruppe (consisting of start:bausparkasse AG and IMMO-BANK AG). For purposes of the financial statements as of and for the financial year ended 31 December 2016, the accounting of the purchase price allocation had to be based on provisional amounts. In November 2017, the purchase price allocation was finalised. In line with the applicable accounting standards (IFRS 3.45), among other things, the 2016 Core Revenues were adjusted in BAWAG Group's financial statements as of and for the financial year ended 31 December 2017.

TABLE OF CONTENTS

1	OVERVIEW OF THE NOTES	10
2	RISK FACTORS	20
3	USE OF PROCEEDS	62
4	TERMS AND CONDITIONS OF THE NOTES.....	63
5	DESCRIPTION OF THE ISSUER.....	78
6	REGULATION AND SUPERVISION	96
7	TAXATION.....	106
8	SUBSCRIPTION AND SALE	110
9	GENERAL INFORMATION.....	114
10	DOCUMENTS INCORPORATED BY REFERENCE	116

1 OVERVIEW OF THE NOTES

The following overview contains basic information about the Notes and does not purport to be complete. It does not contain all the information that is important for making a decision to invest in the Notes. For a more complete description of the Notes, please refer to the Terms and Conditions of the Notes set out in section "4 Terms and Conditions of the Notes" of this Prospectus. For more information on the Issuer, its business and its financial condition and results of operations, please refer to the section "5 Description of the Issuer" of this Prospectus. Terms used in this overview and not otherwise defined have the meaning given to them in the Terms and Conditions of the Notes.

Issuer	BAWAG Group AG, a stock corporation formed and operated under Austrian law with its business address at Wiesingerstraße 4, 1010 Vienna, Austria, registered in the Austrian Companies Register (<i>Firmenbuch</i>) under registration number FN 269842 b.
BAWAG Group / Bawag Regulatory Group	<p>"BAWAG Group" means the Issuer and its fully consolidated subsidiaries taken as a whole.</p> <p>"BAWAG Regulatory Group" means, from time to time, any banking group: (i) to which the Issuer belongs; and (ii) to which the own funds requirements pursuant to Parts Two and Three of the CRR on a consolidated basis due to prudential consolidation in accordance with Part One, Title Two, Chapter Two of the CRR apply.</p> <p>The term BAWAG Group therefore refers to the scope of consolidation in accordance with IFRS, while the BAWAG Regulatory Group refers to the scope of prudential consolidation of own funds which may not include all entities included in BAWAG Group.</p>
Securities offered	EUR 300,000,000 Undated Non-Cumulative Fixed to Reset Rate Additional Tier 1 Notes of 2018 (the " Notes ")
Definitions	References to capitalised terms not defined herein are to those terms as defined in the Terms and Conditions of the Notes.
Issue Date	25 April 2018
Specified Currency	EUR
Issue Size	EUR 300,000,000
Denomination	EUR 200,000 per Note (the " Specified Denomination " or the " Original Principal Amount ")
Issue Price	100 per cent.
Form	Bearer Notes in Classical Global Note form
Custody	Euroclear and Clearstream Luxembourg
Current Principal Amount per Note	Means initially the Original Principal Amount, which from time to time, on one or more occasions, may be reduced by a Write-Down and, subsequent to any such reduction, may be increased by a Write-Up, if any (up to the Original Principal Amount).
Status in the insolvency or liquidation of the Issuer / No Petition	<p>The Notes constitute direct, unsecured and subordinated obligations of the Issuer and constitute AT 1 Instruments.</p> <p>In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:</p> <ul style="list-style-type: none">(a) junior to all present or future: (i) unsubordinated instruments or obligations of the Issuer; (ii)(x) any Tier 2 Instruments; and (y) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to the unsubordinated obligations of the Issuer (other than instruments or obligations ranking or expressed to rank <i>pari passu</i> with or subordinated to the Notes);(b) <i>pari passu</i>: (i) among themselves; and (ii) with all other present or future (x) AT 1 Instruments; and (y) instruments or obligations ranking or expressed to rank <i>pari passu</i> with the Notes; and(c) senior to all present or future: (i) ordinary shares of the Issuer and any other CET 1

Instruments; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank: (x) subordinated to the obligations of the Issuer under the Notes; or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

For the avoidance of doubt, the holders of Notes (the "**Holders**") will neither participate in any reserves of the Issuer nor in liquidation profits (*Liquidationsgewinn*) within the meaning of § 8(3)(1) of the Austrian Corporate Income Tax Act 1988 (*Körperschaftsteuergesetz 1988*) in the event of the Issuer's liquidation.

The rights of the Holders of the Notes to payment of principal on the Notes are at any time limited to a claim for the prevailing Current Principal Amount.

The Holders will be entitled to payments, if any, under the Notes only once any negative equity (*negatives Eigenkapital*) within the meaning of § 225(1) of the Austrian Enterprise Code (*Unternehmensgesetzbuch – UGB*) has been removed (*beseitigt*) or if, in the event of the liquidation (*Liquidation*) of the Issuer, all other creditors (other than creditors the claims of which rank or are expressed to rank *pari passu* with or junior to the Notes) of the Issuer have been satisfied first.

No insolvency proceedings against the Issuer are required to be opened in relation to the obligations of the Issuer under the Notes. The claims of the Holders against the Issuer under the Notes are subordinated in accordance with § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung – IO*) and the Notes do not contribute to a determination that the liabilities of the Issuer exceed its assets; i.e. the obligations of the Issuer under the Notes, if any, will not contribute to the determination of over-indebtedness (*Überschuldung*) in accordance with § 67(3) of the Austrian Insolvency Code.

"**AT 1 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Additional Tier 1 instruments pursuant to Article 52 CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

"**CET 1 Instruments**" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 CRR.

"**CRR**" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CRR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"**Tier 2 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions under the CRR.

Bail-in

If the relevant resolution authority exercises write-down and conversion powers, either the principal amount of the Notes will be (permanently) written down or the Notes will be converted to CET 1 instruments. Please see the section "*2 Risk Factors*" for further information.

No security, no guarantee

The Notes are neither secured nor subject to a guarantee that enhances the seniority of the claims under the Notes.

No arrangement that enhances the seniority of the claim under the Note

The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or liquidation.

No set-off

Claims of the Issuer are not permitted to be set-off or netted against payment obligations of the Issuer under the Notes. No contractual collateral may be provided by the Issuer or any third person for the liabilities constituted by the Notes.

Distributions

Each Note will bear distributions at a fixed rate of 5.000 per cent. *per annum* scheduled to be paid semi-annually in arrear on 14 May and 14 November each year (the "**Distribution Payment Dates**") from and including the Issue Date to but excluding 14 May 2025 (the "**First**

Reset Date").

Thereafter, reset on each Reset Date based on the sum of the prevailing annual swap rate for swap transactions in the Specified Currency with a term of 5 years plus a margin of 4.415 per cent. *per annum*, such sum converted from an annual basis to a semi-annual basis in accordance with market convention, scheduled to be paid semi-annually in arrear on each Distribution Payment Date.

"**Reset Date**" means the First Reset Date and each 5th anniversary thereof for as long as the Notes remain outstanding.

Cancellation of Distributions

The Issuer, at its full discretion, may, at all times cancel, in whole or in part, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date for an unlimited period and on a non-cumulative basis. The Issuer may use such cancelled payments without restrictions to meet its obligations as they fall due. If the Issuer makes use of such right, it shall give notice to the Holders without undue delay and in any event no later than on the Distribution Payment Date.

Without prejudice to such full discretion of the Issuer, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date shall be cancelled mandatorily and automatically, in whole or in part, if and to the extent:

- (i) the amount of such distribution payment scheduled to be paid together with any Additional Amounts thereon and any payments of interest, dividends or distributions that are simultaneously planned or made or that have been made by the Issuer on other Tier 1 Instruments in the then current financial year of the Issuer would exceed the amount of the available Distributable Items, provided that, for such purpose, the available Distributable Items shall be increased by (x) an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including payments of distributions together with any Additional Amounts thereon on the Notes) in the calculation of the profit (*Gewinn*) on which the available Distributable Items are based and (y) any other amounts that may be included for the purposes of determining the amounts available for distributions on AT 1 Instruments under the Applicable Supervisory Regulations from time to time or
- (ii) the Competent Authority orders the relevant distribution payment scheduled to be paid to be cancelled in whole or in part; or another prohibition on distributions is imposed by law or by the Competent Authority (including any prohibition on distributions as a result of the calculation of the maximum distributable amount within the meaning of Article 141(2) CRD IV (the "**Maximum Distributable Amount**") and as currently transposed into Austrian law by § 24(2) BWG).

If any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date is so mandatorily and automatically cancelled, the Issuer shall give notice to the Holders thereof without undue delay. Any failure to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose.

If a Write-Down occurs during any Distribution Period, unpaid distributions accrued on the Current Principal Amount to but excluding the Effective Date will be cancelled mandatorily and automatically in full.

"**Distributable Items**" means in respect of any payment of distributions on the Notes the distributable items as defined in Article 4(1)(128) CRR in respect of each financial year of the Issuer, as at the end of the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date for which such Relevant Financial Statements are available, all as determined in accordance with the accounting principles applied by the Issuer and as derived from the most recent Relevant Financial Statements.

"**Relevant Financial Statements**" means: (i) the audited (*geprüften*) and adopted (*festgestellten*) unconsolidated annual financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date; or (ii) if such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant Distribution Payment Date, unaudited unconsolidated pro forma financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated

annual financial statements.

No restrictions on the Issuer following any cancellation of distributions

Any distribution payment so cancelled will be non-cumulative and will be cancelled permanently and no payments will be made nor will any Holder be entitled to receive any payment or indemnity in respect thereof. Any such cancellation of distributions will not constitute an event of default of the Issuer and will not impose any restrictions on the Issuer.

Write-Down

If a Trigger Event has occurred, the Issuer will:

- (i) immediately inform the Competent Authority that the Trigger Event has occurred;
- (ii) determine the Write-Down Amount as soon as possible, but in any case within a maximum period of one month following the determination that a Trigger Event has occurred;
- (iii) without undue delay inform the Principal Paying Agent and the Holders that a Trigger Event has occurred by publishing a notice (such notice a "**Write-Down Notice**") which will specify the Write-Down Amount as well as the new/reduced Current Principal Amount of each Note and the Effective Date, provided that any failure to provide such Write-Down Notice shall not affect the effectiveness of, or otherwise invalidate any Write-Down or give Holders any rights as a result of such failure; and
- (iv) (without the need for the consent of Holders) reduce the then prevailing Current Principal Amount of each Note by the relevant Write-Down Amount (such reduction being referred to as a "**Write-Down**", and "**Written Down**" shall be construed accordingly) without undue delay, but not later than within one month, with effect as from the Effective Date.

For the avoidance of doubt, a Trigger Event may be determined at any time and may occur on more than one occasion, each Note may be subject to a Write-Down on more than one occasion and the Current Principal Amount of a Note may never be reduced to below EUR 0.01.

The aggregate reduction of the aggregate Current Principal Amount of all Notes outstanding on the Effective Date will, subject as provided below, be equal to the lower of:

- (i) the amount necessary to generate sufficient Common Equity Tier 1 capital pursuant to Article 50 CRR that would restore the Group CET 1 Capital Ratio to the Trigger Level at the point of such reduction, after taking into account (subject as provided below) the *pro rata* write-down and/or conversion of the prevailing principal amount of all Loss Absorbing Instruments (if any) to be written down and/or converted concurrently (or substantially concurrently) with the Notes, provided that, with respect to each Loss Absorbing Instrument (if any), such *pro rata* write-down and/or conversion shall only be taken into account to the extent required to restore the Group CET 1 Capital Ratio contemplated above to the lower of: (x) such Loss Absorbing Instrument's trigger level; and (y) the Trigger Level and, in each case, in accordance with the terms of the relevant Loss Absorbing Instruments and the Applicable Supervisory Regulations; and
- (ii) the amount that would result in the Current Principal Amount of a Note being reduced to EUR 0.01.

The aggregate reduction so determined shall be applied to each Note *pro rata* on the basis of its Current Principal Amount prevailing immediately prior to the Write-Down and references herein to "**Write-Down Amount**" shall mean, in respect of each Note, the amount by which the Current Principal Amount of such Note is to be Written Down accordingly.

If, in connection with the Write-Down or the calculation of the Write-Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down and/or converted in full and not in part only (the "**Full Loss Absorbing Instruments**"), then:

- (i) the provision that a Write-Down of the Notes should be effected *pro rata* with the write-down and/or conversion, as the case may be, of any Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written Down in full solely by virtue of the fact that such Full Loss Absorbing Instruments may be written down and/or converted in full; and
- (ii) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing

Instruments will be treated (for the purposes only of determining the write-down of principal and/or conversion, as the case may be, among the Notes and any Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write-down and/or conversion, such that the write-down and/or conversion of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (x) first, the principal amount of such Full Loss Absorbing Instruments shall be written down and/or converted *pro rata* (in the manner contemplated above) with the Notes and all other Loss Absorbing Instruments to the extent necessary to restore the Group CET 1 Capital Ratio to the Trigger Level; and (y) second, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (x) shall be written off and/or converted, as the case may be, with the effect of increasing the Group CET 1 Capital Ratio above the Trigger Level.

To the extent the write-down and/or conversion of any Loss Absorbing Instruments is not possible or not made for any reason, this shall not in any way prevent any Write-Down of the Notes. Instead, in such circumstances, the Notes will be Written Down and the Write-Down Amount determined as provided above but without including for this purpose any Common Equity Tier 1 capital in respect of the write-down or conversion of such Loss Absorbing Instruments, to the extent it is not possible for them to be or they are not for any reason, written down and/or converted.

The Issuer's determination of the relevant Write-Down Amount shall be irrevocable and binding on the Agents and the Holders.

Any reduction of the Current Principal Amount of a Note pursuant to the provisions above shall not constitute a default by the Issuer for any purpose, and the Holders shall have no right to claim for amounts Written Down, whether in the insolvency or liquidation of the Issuer or otherwise, save to the extent (if any) such amounts are subject to a Write-Up.

The Issuer shall not give a notice of redemption after a Write-Down Notice has been given until the Effective Date of the Write-Down.

In addition, if a Trigger Event occurs after a notice of redemption but before the date on which such redemption becomes effective, the notice of redemption shall automatically be deemed revoked and shall be null and void and the relevant redemption shall not be made.

"Applicable Supervisory Regulations" means, at any time, any requirements of Austrian law or contained in the regulations, requirements, guidelines or policies of the Competent Authority, the European Parliament and/or the European Council, then in effect in Austria and applicable to the BAWAG Regulatory Group and/or (as the case may be) the Issuer, including but not limited to the provisions of the BWG, the CRD IV, the CRR, the CDR and the SSM Regulation, in each case as amended from time to time, or such other law, regulation or directive as may come into effect in place thereof.

"CDR" means the Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (Capital Delegated Regulation), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CDR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"Current Principal Amount" means initially the Original Principal Amount, which from time to time, on one or more occasions, may be reduced by a Write-Down and, subsequent to any such reduction, may be increased by a Write-Up (as defined below), if any (up to the Original Principal Amount).

"Effective Date" means the date as is selected by the Issuer and specified as such in the Write-Down Notice to the Holders, but which shall be no later than one month (or such shorter period as the Competent Authority may require) following the occurrence of the relevant Trigger Event.

"Group CET 1 Capital Ratio" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) CRR of the BAWAG Regulatory Group on a consolidated basis, as calculated by the Issuer in accordance with the Applicable Supervisory Regulations, which determination will be binding on the Holders.

"Loss Absorbing Instrument" means, at any time, any AT 1 Instrument (other than the Notes) that may have all or some of its principal amount written down (whether on a

permanent or temporary basis) or converted (in each case, in accordance with its terms or otherwise) on the occurrence or as a result of the Group CET 1 Capital Ratio falling below a certain trigger level.

"Loss Absorbing Written Down Instrument" means, at any time, any AT 1 Instrument (other than the Notes) or, as applicable, any instrument issued by a member of the BAWAG Regulatory Group and qualifying as Additional Tier 1 instruments pursuant to Article 52 CRR of the BAWAG Regulatory Group, that, at the point in time falling immediately prior to any Write-Up of the Notes, is outstanding and has a prevailing principal amount that is less than its original principal amount because all or some of its principal amount has been written down on a temporary basis, and that has terms permitting a principal write-up to occur on a basis similar to that so provided in the Terms and Conditions in the circumstances existing on the relevant Write-Up Date.

"SSM Regulation" means Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks to the ECB concerning policies relating to the prudential supervision of credit institutions.

Trigger Event

A **"Trigger Event"** occurs if, at any time, the Group CET 1 Capital Ratio is lower than the Trigger Level. The determination as to whether a Trigger Event has occurred shall be made by the Issuer, the Competent Authority or any agent appointed for such purpose by the Competent Authority.

"Trigger Level" means 5.125 per cent.

Write-Up

The Issuer may, at its sole discretion, to the extent permitted in compliance with the Applicable Supervisory Regulations, reinstate any portion of the principal amount of the Notes which has been Written Down (such portion, the **"Write-Up Amount"**), subject to the below limitations.

The reinstatement of the Current Principal Amount (such reinstatement being referred to herein as a **"Write-Up"**, and **"Written Up"** shall be construed accordingly) may occur on more than one occasion (and each Note may be Written Up on more than one occasion), provided that the principal amount of each Note shall never be Written Up to an amount greater than its Original Principal Amount.

Write-Ups do not have priority over dividend payments and other distributions on shares and other CET 1 Instruments of the Issuer, i.e. such payments and distributions are permitted even if no full Write-Up of the Notes has been effected.

There will be no obligation for the Issuer to operate or accelerate a Write-Up under any circumstances.

If the Issuer so decides in its sole discretion, the Write-Up will occur with effect as from the Write-Up Date.

At its discretion (without being obliged to) the Issuer may effect such Write-Up, provided that:

- (a) at the time of the Write-Up, there must not exist any Trigger Event that is continuing; any Write-Up is also excluded if such Write-Up would give rise to the occurrence of a Trigger Event;
- (b) such Write-Up is applied on a *pro rata* basis to all Notes and on a *pro rata* basis with the write up of all Loss Absorbing Written Down Instruments (if any); and
- (c) the sum of: (x) the aggregate amount attributed to the relevant Write-Up of the Notes on the Write-Up Date and the aggregate amount of any previous Write-Up of the Notes since the end of the then previous financial year and prior to the Write-Up Date; (y) the aggregate amount of the increase in principal amount of each Loss Absorbing Written Down Instrument at the time of the relevant Write-Up and the aggregate amount of the increase in principal amount of each Loss Absorbing Written Down Instrument resulting from any previous write-up since the end of the then previous financial year and prior to the time of the relevant Write-Up; and (z) the aggregate amount of any distribution and any Additional Amounts thereon paid on the aggregate Current Principal Amount of the Notes and the aggregate amount of any distribution and any additional amounts thereon paid on Loss Absorbing Written Down Instruments as calculated at the moment the Write-Up is operated will not exceed the Maximum Write-Up Amount at any time after the end of the then previous financial

year.

The amount of any Write-Up and payments of distributions on the reduced Current Principal Amount shall be treated as payment resulting in a reduction of Common Equity Tier 1 capital and shall be subject, together with other distributions on CET 1 Instruments, to any applicable restrictions relating to the Maximum Distributable Amount, including those referred to in § 24(2) BWG (implementing Article 141(2) CRD IV in Austria).

If the Issuer elects to effect a Write-Up, it will publish a notice about the Write-Up (including the amount of the Write-Up as a percentage of the Original Principal Amount and the effective date of the Write-Up (in each case a "**Write-Up Date**") no later than 10 calendar days prior to the relevant Write-Up Date to the Principal Paying Agent and, in accordance with the Terms and Conditions, to the Holders. The Write-Up shall be deemed to be effected, and the Current Principal Amount shall be deemed to be increased by the amount specified in the notice, with effect as of the Write-Up Date.

Any Write-Down or Write-Up shall be reflected in the records of CBL and Euroclear as a pool factor.

"Maximum Write-Up Amount" means the Net Profit multiplied by the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial principal amount of all Loss Absorbing Written Down Instruments of the BAWAG Regulatory Group (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 capital pursuant to Article 25 CRR of the BAWAG Regulatory Group as at the date the relevant Write-Up is operated, or any higher or lower amount permitted to be used under the Applicable Supervisory Regulations in effect on the date of the relevant Write-Up.

"Net Profit" means the consolidated net income for the year (*Jahresüberschuss*) recorded in the consolidated financial statements of the Issuer, in each case after such consolidated financial statements have formally been determined (*festgestellt*) by either the supervisory board (*Aufsichtsrat*) or, if so requested, the shareholders' meeting (*Hauptversammlung*) of the Issuer.

No Fixed Maturity

The Notes will be perpetual and undated obligations of the Issuer.

They represent perpetual own funds instruments and have no final maturity date.

No incentive to redeem

The Terms and Conditions of the Notes will not contain any step up or any other incentive to redeem the Notes.

No redemption at the option of the Holders

The Notes are not redeemable at the option of the Holders, and they will not otherwise be redeemed except at the option of the Issuer and subject to the Conditions to Redemption and Repurchase being met (see "*Redemption at the Option of the Issuer*" and "*Special Event Redemption*" below and "*Status in the insolvency and liquidation of the Issuer / No Petition*" above).

Redemption at the Option of the Issuer

Subject to the Conditions to Redemption and Repurchase being met, the Issuer may call and redeem the Notes in whole, but not in part, at their Current Principal Amount on any Call Redemption Date. "**Call Redemption Date**" means the First Reset Date and each Distribution Payment Date thereafter.

The Issuer may exercise its redemption right only if the Current Principal Amount of each Note is equal to its Original Principal Amount, except in the event of a Special Event Redemption (as defined below).

Special Event Redemption

Subject to the Conditions to Redemption and Repurchase being met, the Issuer may, upon giving notice, redeem the Notes in whole, but not in part, at their Current Principal Amount at any time on the date of redemption specified in the notice, if either a Tax Event or a Regulatory Event occurs.

Conditions to Redemption and Repurchase

Any redemption and any repurchase is subject to:

- (a) the Issuer having obtained the prior permission of the Competent Authority for the redemption or any repurchase in accordance with Article 78 CRR, if applicable to the Issuer at that point in time, whereas such permission may, *inter alia*, require that:
 - (i) either the Issuer replaces the Notes with own funds instruments of equal or

- higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds of the BAWAG Regulatory Group would, following such redemption or repurchase, exceed the minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and
- (b) in the case of any redemption prior to the fifth anniversary of the date of issuance of the Notes:
- (i) due to a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the date of issuance of the Notes; or
 - (ii) due to a Regulatory Event, the Competent Authority considers such change to be sufficiently certain and the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the date of issuance of the Notes.

Notwithstanding the above conditions, if, at the time of any redemption or purchase, the prevailing Applicable Supervisory Regulations permit the redemption or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above, the Issuer shall comply with such other and/or, as appropriate, additional pre-conditions, if any.

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with the Applicable Supervisory Regulations shall not constitute a default for any purpose.

In addition, even if a notice of redemption is given, the Issuer will only redeem the Notes on the date of redemption specified for this purpose if (x) the Conditions to Redemption and Repurchase as laid down above are fulfilled on said date and (y) no Trigger Event has occurred after the notice of redemption put before the date of redemption specified in the notice.

Repurchases general

Provided that all applicable regulatory and other statutory restrictions are observed, and provided further that the Conditions to Redemption and Repurchase are met, the Issuer and/or any of its subsidiaries may repurchase Notes in the open market or otherwise at any price. Notes repurchased by the Issuer or the subsidiary may, at the option of the Issuer or such subsidiary, be held, resold or surrendered to the Principal Paying Agent for cancellation

Gross-up/Taxation

All payments of distributions in respect of the Notes will be made by the Issuer free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by the Republic of Austria or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. If such withholding or deduction is required by law, the Issuer will pay such additional amounts in relation to distributions (but not principal) as will be necessary in order that the net amounts received by the Holders after such withholding or deduction will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction (the "**Additional Amounts**"). However, no such Additional Amounts will be payable on account of any Taxes which:

- (a) are payable by any person (including the Issuer) acting as custodian bank or collecting agent on behalf of a Holder, or by the Issuer if no custodian bank or collecting agent is appointed or otherwise in any manner which does not constitute a withholding or deduction by the Issuer from payments of principal or distributions made by it; or
- (b) are payable by reason of the Holder having, or having had, some personal or business connection with the Republic of Austria; or
- (c) are withheld or deducted pursuant to: (i) any European Union directive concerning the taxation of distributions income or (ii) any international treaty or understanding relating to such taxation and to which the Republic of Austria or the European Union is a

party, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such directive, treaty or understanding; or

- (d) are withheld or deducted by a Paying Agent from a payment if the payment could have been made by another Paying Agent without such withholding or deduction; or
- (e) are payable by reason of a change in law that becomes effective more than 30 days after the relevant distribution becomes due; or
- (f) would not be payable if the Holder can avoid such a withholding or deduction providing a certificate of residence, certificate of exemption or any other similar documents required according to the respective applicable regulations.

The restrictions on the payment of distributions shall apply to any Additional Amounts *mutatis mutandis*.

The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or the intergovernmental agreement between the United States and the other jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

Agents

Principal Paying Agent:

Citibank, N.A., London Branch

Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Calculation Agent:

Citibank, N.A., London Branch

Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Notices

Clearing System, Stock Exchange Notice, Website of the Issuer

Amendment of the Conditions, Holder's Representative

Standard provisions subject to German law.

The applicability of the provisions of the Austrian Notes Trustee Act (*Kuratorenengesetz*) and the Austrian Notes Trustee Supplementation Act (*Kuratorenergänzungsgesetz*) is explicitly excluded in relation to the Notes, to the extent legally permissible.

Governing Law

The Notes will be governed by German law, except for the status provisions which will be governed by, and will be construed exclusively in accordance with, Austrian law.

Listing and admission to trading

Luxembourg Stock Exchange, Regulated Market

Rating

The Notes are expected to be rated Ba1 by Moody's Deutschland GmbH ("**Moody's**"). A rating is not a recommendation to buy, sell or hold the Notes and it may be revised or withdrawn by the rating agency at any time.

ISIN, Common Code

ISIN XS1806328750, Common Code 180632875

Joint Lead Managers

Citigroup Global Markets Limited, Morgan Stanley & Co. International plc, UBS Limited.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Notes prior to the expiration of the distribution compliance period. For a description of certain restrictions on offers, sales and

deliveries of the Notes and on the distribution of offering material in certain jurisdictions including but not limited to the United States of America, the European Economic Area, the United Kingdom, Italy, Switzerland, Hong Kong and Singapore, see "*8 Subscription and Sale*" below. In addition, further restrictions on marketing and sales of the Notes to retail investors apply, see also "*8 Subscription and Sale*" below.

2 RISK FACTORS

Before deciding to acquire any Notes, investors should carefully review and consider the following risk factors and the other information contained in this Prospectus. Should one or more of the risks described below materialise, this may have a material adverse effect on the business, prospects, shareholders' equity, assets, financial position and results of operations (Vermögens-, Finanz- und Ertragslage) or general affairs of the Issuer and/or BAWAG Group. Moreover, if any of these risks occur, the market price of the Notes and the likelihood that the Issuer will be in a position to fulfil its payment obligations under the Notes may decrease, in which case the Holders could lose all or part of their investments in the Notes. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay distributions, principal or other amounts on or in connection with the Notes for other reasons than those described below. Additional risks of which the Issuer is not presently aware could also affect the business operations of BAWAG Group and have a material adverse effect on BAWAG Group's business activities and financial condition and results of operations. Prospective investors should read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Words and expressions defined in the section "4 Terms and Conditions of the Notes" below shall have the same meanings in this section.

Potential investors should, among other things, consider the following:

2.1 Risks relating to the Issuer and BAWAG Group

The following is a description of the risk factors, which may affect the ability of the Issuer to fulfil its obligations under the Notes. Potential investors should carefully read and consider these risk factors before deciding upon the acquisition of any Notes.

Potential investors should consider these risk factors and all other information provided in this Prospectus and consult their own experts. In addition, investors should bear in mind that several of the mentioned risks may occur simultaneously and that their implication can, possibly together with other circumstances, thus be intensified. The order in which the risks are described neither represents a conclusion about their probability of occurrence nor the gravity or significance of the individual risks. The following information is not exhaustive. Indeed, further risks which are not yet apparent may also affect the business activities of BAWAG Group and the ability of the Issuer to meet its obligations under the Notes. Due to the occurrence of each individual risk described in the following, investors could lose their invested capital in whole or in part.

2.1.1 Risks relating to the business of the Issuer and BAWAG Group and the industries in which they operate.

An investment in the Notes involves accepting risks of the underlying operational business of the Issuer and the BAWAG Group.

The Issuer is the financial holding company of BAWAG Group and operates mainly through its six banking subsidiary companies: (i) BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft ("**BAWAG P.S.K.**"), (ii) easybank AG ("**easybank**"), (iii) BAWAG P.S.K. Wohnbaubank Aktiengesellschaft ("**Wohnbaubank**"), (iv) IMMO-BANK Aktiengesellschaft ("**IMMO-BANK**"), (v) start:bausparkasse AG ("**start:bausparkasse**") and (vi) SÜDWESTBANK Aktiengesellschaft ("**Südwestbank**"). BAWAG Group operates in various jurisdictions and business areas so BAWAG Group's risk situation and, by extension, that of the Issuer, comprises various aspects. The overall risk situation of the Issuer and BAWAG Group and any of the following single risks may negatively influence the future income, asset and liquidity situation of the Issuer and therefore the ability of the Issuer to meet its obligations under the Notes:

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

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

The elevated political uncertainty could trigger the unwinding of certain aspects of European integration that have benefitted BAWAG Group's businesses; for example, based on the EU principle of single authorisation, BAWAG Group may offer banking

services throughout the EU in reliance on its authorisation by the Austrian Financial Markets Authority (*Österreichische Finanzmarktaufsichtsbehörde* - "**FMA**"), which is a benefit it could lose as a result of the disintegration described above. The prospects for national structural reform and further integration among EU member states, both viewed as important tools to reduce the eurozone's vulnerabilities to future crises, appear to have worsened. These factors may increase uncertainty leading to reduced levels of economic activity and output which may materially reduce BAWAG Group's business success.

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

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

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

Any deterioration of the general economic climate, the economic situation of the financial services sector, the future exacerbation or expansion in geopolitical conflicts and any resulting deterioration of the financial standing of BAWAG Group's customers generally could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

The result of the U.K.'s referendum to leave the EU and the subsequent initiation of the legal process pursuant to Article 50 of the Lisbon Treaty that must end in March 2019 with the U.K. exiting the EU, commonly referred to as "**Brexit**", may have significant, unpredictable consequences for the economies and financial markets in both the U.K. and the EU and, thus, on the business of BAWAG Group. On 28 February 2018, the European Commission published a draft Article 50 Withdrawal Agreement which will need to be concluded by the European Council, the European Parliament and the U.K. "Brexit" will become effective on 30 March 2019. Given the uncertainty of the ongoing process of the U.K.'s withdrawal from the EU, it is difficult to determine the exact impact on BAWAG Group over the long term. BAWAG Group is also unable to determine with any precision the impact of Brexit on its business operations in the U.K. in the short-term, as there remains limited clarity on the details or timing of the changes. In view of its London-based origination team for its International Business segment, a Brexit could negatively affect the origination of international lending business, for example if the origination became subject to additional regulatory requirements or the team had to be relocated to a member state of the EU. In addition, BAWAG Group's business operations in the U.K. largely consist of a performing residential mortgage loan portfolio which means that it would be primarily affected if Brexit resulted in an increase of defaults of the borrowers in its residential mortgage loan portfolio or if a substantial devaluation of the GBP which could force it to write down the value of its portfolio. Regardless of the ultimate terms and date of exit from the EU, the referendum has created significant political, financial and macroeconomic turmoil and uncertainty. Therefore, Brexit could result in significant macroeconomic deterioration including, in particular, increased volatility of foreign exchange markets (as evidenced by the result of the U.K. general election of 8 June 2017), a further devaluation of the euro against other leading currencies and a decrease of the gross domestic product in the EU. Any of these developments could have a severe adverse impact on the economic situation and consumer climate in the EU, including Austria and Germany (for which the U.K. is an important trade partner).

Moreover, the Brexit vote has also given a voice to political parties challenging European integration and other EU countries could follow suit and also leave the EU in the future, or threaten to leave unless certain concessions are made, especially if Brexit or any other member country's exit does not materially negatively affect such country. The resulting uncertainty could

have significant effects on the value of the euro and on the prospects for member states' financial stability, which in turn could lead to a significant deterioration of the sovereign debt market. If one or more eurozone members default on their debt obligations or decide to leave the common currency, this would result in the reintroduction of one or more national currencies. Possible consequences of such a departure for an exiting member state may also include the loss of liquidity supply by the ECB, the need to introduce capital controls and, subsequently, certificates of indebtedness, a possibility of a surge in inflation and, generally, a breakdown of its economy. Businesses and other debtors whose main sources of income are converted to a non-euro currency could be unable to repay their euro-denominated debts. This and the resulting need to restate existing contractual obligations could have unpredictable financial, legal, political and social consequences, leading not only to significant losses on sovereign debt but also on private debt in that country. Given the highly interconnected nature of the financial system within the eurozone, and the levels of exposure BAWAG Group has to counterparties holding sovereign and private debt around Europe, its ability to plan for such a contingency in a manner that would reduce its exposure to non-material levels is limited. In the wider eurozone, concerns over the euro's future might cause businesses to cut investment and people to cut back their spending, thus pushing the eurozone into recession. Nervous depositors in other struggling eurozone countries could start withdrawing their deposits or moving them to other countries, thus provoking a banking crisis. The euro could lose but also increase in value in case that exiting countries are coming from the economically weaker periphery. Depending on the exact mutual development of the FX-rates embedded in the global exchange-rate regime, this might impact BAWAG Group's ability to repay its obligations. If the overall economic climate deteriorates as a result of one or more departures from the eurozone, BAWAG Group's businesses could be materially adversely affected, and, if overall business levels decline or it is forced to write down significant exposures among its various businesses, BAWAG Group could incur substantial losses.

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

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

The effectiveness of the two EU stability mechanisms, the European Financial Stability Facility and the European Stability Mechanism, remains ambiguous, and may be threatened by further rating downgrades of EU member states since their ratings are based on those of the financing members. An exit by any current eurozone member may also negatively affect presently financially stable and sound eurozone countries including Austria, Germany and France.

The realisation of any of these risks may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

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

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

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

An insolvency of a public sector entity could also lead to general instability and contagious effects, which could lead to adverse effects on BAWAG Group's financial condition and results of operations even if BAWAG Group has no direct exposure to such entity.

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

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

The realisation of one or all of the risks described above could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

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

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

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

One of the core funding strategies of BAWAG Group is stable customer deposits. Their availability depends on various external factors beyond its control such as the confidence of the public in the economy, the financial sector, and BAWAG Group. A change of such confidence levels, as well as an increase in general interest rates or the deterioration of economic conditions may limit the ability of BAWAG Group to maintain an adequate level of customer deposits on acceptable terms, which may have a material adverse effect on its ability to fund its operations (see also "2.1.1.15 BAWAG Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfil its obligations."). In 2005 and 2006, due to unsuccessful investments which related primarily to interest rate and currency swaps, BAWAG Group experienced a liquidity crisis which threatened the economic survival and viability of BAWAG Group. BAWAG Group takes these past events into account when conducting its liquidity stress tests and reviewing its recovery plan, however, the recurrence of such a liquidity crisis cannot be excluded. Significant outflows of deposits could have a material adverse

effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

BAWAG Group's operating subsidiary BAWAG P.S.K. is rated by Moody's with a long-term issuer rating of A2 with a stable outlook and by Fitch Ratings Limited ("**Fitch**") with a long-term issuer rating of A– with a stable outlook.

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

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

Therefore, possible future downgrades in the financial rating of BAWAG P.S.K. could have a material adverse effect on BAWAG Group's liquidity, profitability, business, financial condition, results of operations and prospects, and may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

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

These risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

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

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

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

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

Due to the nature of its business activities and its exposure to market risks, an unfavourable development of market variables, such as interest rates, foreign exchange rates, share prices or volatility, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the Issuer's ability to meet its obligations under the Notes.

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

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

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

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

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

BAWAG Group uses models across many, though not all, of its activities including, but not limited to, capital management, credit grading, provisioning, valuations, liquidity, pricing and stress testing. BAWAG Group also uses financial models to determine the fair value of derivative financial instruments, financial instruments through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available for sale in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union. Since BAWAG Group uses risk measurement models based on historical observations, there is a risk that they underestimate or overestimate exposure to various risks to the extent

that future market conditions deviate from historical experience. In addition, the risk measurement models may fail to take into account certain other relevant factors (both historical and current), or the models may be otherwise incomplete. Furthermore, as a result of evolving regulatory requirements, the importance of models across BAWAG Group's business has been heightened and their importance may continue to increase, in particular because of reforms introduced by the Basel Committee on Banking Supervision ("**BCBS**"), including the framework known as 'Basel IV' (see also "2.1.2.1 Past, ongoing and uncertain future reforms and initiatives in legislation or supervision, including additional and more stringent regulation and public sector influence on the financial sector, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects." below). Certain of BAWAG Group's models are in the process of being implemented and are subject to ongoing regulatory review.

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

The realisation of any of these risks may adversely affect the Issuer's ability to meet its obligations under the Notes.

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

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

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

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

BAWAG Group also conducts certain transactions outside of Austria with key international accounts within a pre-defined risk framework. Outside of Austria, BAWAG Group focuses predominantly on Germany, other Western European countries and the United States. BAWAG Group's focus on Germany is evidenced by the recently completed acquisitions of Südwestbank as well as the entering into a definitive purchase agreement for Deutsche Ring Bausparkasse AG.

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

The *easygroup* segment holds performing residential mortgage loan portfolios in France and the U.K. which contributed 52% of that segment's profit before tax in the financial year 2017. In respect of both portfolios, BAWAG Group is subject to, among others, credit risks (see also "2.1.1.9 BAWAG Group is exposed to risks concerning customer and counterparty credit quality which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects."). In particular, the mortgages securing the loans may not be sufficient to cover losses in case real estate prices deteriorate. In addition, in view of amortisation of the loan portfolios, BAWAG Group faces the risk of failing to find reinvestment opportunities generating equivalent net interest income at an equivalent level of risk. This reinvestment pressure may cause BAWAG Group to enter into transactions with lower margins and/or higher risk profiles. The reinvestment pressure may intensify, for example, if borrowers opt for an early repayment of their loans.

Furthermore, as of 31 December 2017, 9% and 53% of the residential mortgage loan portfolios in France and the U.K., respectively, are bullet loans. These are loans that only require interest payments during the term of the loan, with the principal

to be repaid in full at the end of the term. In most cases, the entire principal must either be repaid or refinanced at the end of the term, which results in repayment or refinancing risks which are greater than those of loans where the monthly instalments consist of interest and principal components. In view of the full payment falling due at maturity of the loans, bullet loans represent a higher default risk at maturity compared to amortising loans. Further, in the U.K. in particular it is common market practice for the principal to be repaid using the proceeds from the sale of the underlying real estate. Any adverse movements in the market price of the underlying real estate may increase the credit risk resulting from the gap between sales proceeds and outstanding loan amount.

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

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

The international business of BAWAG Group also exposes it to a greater degree of political, social and economic risks as described in more detail above (see risk factor "2.1.1.1 BAWAG Group's business success is dependent on the political and general macroeconomic conditions of the economies in which BAWAG Group is active.").

A materialisation of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

Real estate comprises over 75% of BAWAG Group's collateral portfolio as of 31 December 2017. A significant devaluation of commercial real estate could have adverse effects on the banking sector, including BAWAG Group, which could be particularly negatively affected by any such devaluation due to its exposure to commercial real estate in Austria, Ireland, the U.K., the United States, Germany and the Netherlands. Reduced income of its customers from commercial real estate may result in payment defaults and write-offs on assets held by BAWAG Group.

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

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

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

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

BAWAG Group's funding strategy is dependent upon its stable customer deposits base (see also "2.1.1.5 BAWAG Group is dependent on the confidence of its customers in the banking system and the business of BAWAG Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects."). As of 31 December 2017, of the € 30,947 million retail and corporate savings products, € 28,095 million were variable deposits which can be withdrawn on short notice. Therefore, BAWAG Group is subject to the risk of material deposit outflows which may be outside of its control.

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

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

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

Any deterioration in BAWAG Group's liquidity could have a material adverse effect on its business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

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

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

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

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

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

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

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

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

Any damage to BAWAG Group's reputation arising from negative publicity, or a negative perception of online banking in general, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

2.1.1.19 BAWAG Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results.

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

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

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

- identify and conclude attractive acquisitions;
- integrate acquired entities, e.g., Südwesbank;

- expand its retail business into Germany; and
- migrate older current account models with low or negative profit margins into the new more profitable KontoBox models.

Furthermore, BAWAG Group's Audited Consolidated Financial Statements and the other historical financial information included in this Prospectus do not necessarily indicate what BAWAG Group's results of operations, financial position, cash flows or costs and expenses will be in the future.

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

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

- through BAWAG P.S.K. Versicherung AG, a joint venture company that is 25% owned by BAWAG Group and 75% owned by the Generali Group, BAWAG Group offers its customers insurance products;
- in cooperation with its partner Amundi, BAWAG Group offers its customers investment products;
- in cooperation with its partner Western Union, BAWAG Group offers person-to-person money transfer, money orders, business payments and commercial payment services; and
- in cooperation with its partner Wüstenrot, BAWAG Group offers building savings loans.

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

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

BAWAG P.S.K.'s network of approximately 430 branches is operated under a cooperation agreement with Austrian Post, whereby Austrian Post provides certain financial services, including cash deposits, payments and withdrawals, on behalf of BAWAG P.S.K. at branches owned or leased by Austrian Post. At the end of 2017, BAWAG Group terminated the cooperation agreement with effect as of 31 December 2020. Following the termination of the cooperation agreement by BAWAG Group, BAWAG Group and Austrian Post have agreed to work towards a materially complete separation already by the end of 2019. The separation agreement is intended to also adjust pricing for services provided by Austrian Post to market rates and based on performance for transaction services and advisory activity in the transitional period through 2019. During the transition period, BAWAG Group intends to create a standalone branch network of approximately 100 branches through the opening of approximately 25 new branches to supplement the 74 branches that BAWAG P.S.K. currently owns or leases. Furthermore, BAWAG Group plans to hire and train new advisors to replace, in part, a portion of the advisors currently provided by Austrian Post, although at significantly reduced staffing levels. Currently approximately 300 of the nearly 1000 advisors in the BAWAG network are Austrian Post employees, trained and managed by BAWAG. All personnel in the highly dispersed network would be consolidated to the target network.

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

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

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

BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

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

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

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

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

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

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

BAWAG Group is exposed to the risk of breaches of the security of its computer systems due to unauthorised access to network resources or other forms of cyber-attack or internet crime including the use of viruses and trojans. The increasing frequency and sophistication of recent cyber-attacks, as evidenced by the large-scale attack on computers based in Ukraine in June 2017 which then spread internationally, has resulted in an elevated risk profile for many organisations around the world. Such breaches could disrupt BAWAG Group's business, result in the disclosure of confidential information and create

significant financial and/or legal exposure and could damage the reputation of BAWAG Group. BAWAG Group devotes significant resources towards the protection of its systems against such breaches, but it cannot be guaranteed that the protection measures BAWAG Group has taken will be effective against all threats, particularly against unknown future threats given the use of new technologies and increasing reliance on the Internet and the varying nature and evolving sophistication of such attacks. There is no assurance that BAWAG Group's security measures will provide absolute security. BAWAG Group's efforts to ensure the integrity of its systems may not be sufficient to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognised until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside BAWAG Group such as persons who are involved with organised crime or associated with external service providers or who may be linked to terrorist organisations or hostile foreign governments. If an actual or perceived breach of security occurs, customer perception of the effectiveness of BAWAG Group's security measures could be harmed which could result in the loss of customers.

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

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

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

BAWAG Group has already disposed of several participations and is generally considering the sale of other participations. The sale price of such participations could be less than their book value, which could have a material adverse effect on BAWAG Group's profitability, business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

In addition, acquired businesses may not perform as well as expected, or may not achieve the expected results within the anticipated timeframe, and the benefits of an acquisition (including expected synergies) may take longer to realise than expected or may not be realised fully or at all. Moreover, the integration of acquired businesses is typically a complex, time consuming and expensive process. Such processes may take longer than anticipated or involve higher expenses than originally anticipated, and be subject to a number of uncertainties, such as costs and expenses associated with unexpected difficulties, a diversion of management's attention from BAWAG Group's daily operations and/or strategic business decisions, a

potential loss of key employees and customers or an additional demand on management related to the increase in the size and scope of BAWAG Group's operations. Furthermore, acquisitions by BAWAG Group often require regulatory clearance which may delay or prevent the closing of signed acquisitions. There can be no assurance that these clearances will be obtained on a timely basis or if at all. In addition, BAWAG Group might have difficulty integrating any entity with which it combines its operations. Failure to complete announced business combinations or failure to integrate acquired businesses successfully into BAWAG Group could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes. These eventualities could also lead to departures of key employees, or lead to increased costs and reduced profitability if BAWAG Group felt compelled to offer them financial incentives to remain. There can be no assurances that BAWAG Group will be able to successfully pursue, complete and integrate any future acquisition targets.

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

BAWAG Group's key personnel, i.e. the management of BAWAG Group and other members of its senior management, have been essential in establishing and implementing BAWAG Group's key strategies. In addition, BAWAG Group needs to attract new talent to be able to compete in the national and international banking market. Limitations on the remuneration policies of credit institutions, in particular on the variable elements of remuneration, as set forth in Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as amended ("**CRD IV**") and as implemented in the Austrian Banking Act (*Bundesgesetz über das Bankwesen – "BWG"*) and the local regulations applicable to credit institutions, could impede BAWAG Regulatory Group's efforts to retain or recruit highly qualified personnel. Furthermore, emerging competitors from the Fintech industry as well as employers in other industries competing for talent with BAWAG Group (such as consulting firms or auditors) or employers in other jurisdictions may not be subject to these limits on remuneration policies and could therefore be able to offer more attractive remuneration packages than BAWAG Regulatory Group. If BAWAG Regulatory Group is unable to retain the services of one or more members of its management, it may not succeed in attracting individuals with equal qualifications and comparable experience within a suitable time period and at adequate terms. The loss of management or other key personnel and failure in recruiting new replacing personnel could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

2.1.2 Risks relating to regulatory, legal and tax matters

In addition to BAWAG Group's risks relating to the operational business described above, the following risk factors relating to regulatory, legal and tax matters contribute to BAWAG Group's operative and financing risk, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

- early intervention and resolution powers of supervisory and resolution authorities to intervene in, and prior to, a crisis of banks, including the forced participation of creditors to bear losses and participate in a recapitalisation (so-called 'bail-in');
- restrictions on the remuneration policies and practices of institutions;
- more stringent rules for the annual supervisory review and evaluation process ("**SREP**") by which the ECB assesses and measures the risks for each bank and assesses its adequacy of own funds, liquidity, business model and internal governance and institution-wide controls and subsequently may require the banks to hold additional own funds and liquidity;
- the establishment of the Single Supervisory Mechanism ("**SSM**") with the ECB as the central prudential supervisor directly supervising significant institutions including BAWAG P.S.K. and the creation of a Single Resolution Mechanism ("**SRM**") with, the Single Resolution Board ("**SRB**") as the central body in charge of, *inter alia*, the resolvability

assessment, the resolution planning and resolution of, *inter alia*, institutions directly supervised by the ECB, including BAWAG P.S.K., both within the eurozone and any other EU countries that choose to participate in these mechanisms;

- revised frameworks to prevent market abuse, for investment services and markets in securities and other financial instruments;
- reporting and information requirements for securities financing transactions such as securities lending or repurchase transactions (so-called 'repos') as well as transparency and approval requirements for the reuse of collateral (so-called 'rehypothecation');
- a regulation on the production, use and supervision of financial benchmarks;
- new rules on payment services, including stricter security requirements for electronic payments and opening up the European payment market to non-banks offering account information or payment initiation services as contemplated by Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (known as 'PSD2');
- due diligence, risk retention and transparency rules in connection with securitisations;
- proposals for more stringent and risk-sensitive capital requirements, in particular in relation to credit risk, counterparty credit risk and market risk, leverage and liquidity standards including, in particular, the proposals of December 2017 made by the BCBS in relation to revisions to the standardised approach for credit risk, operational risk, constraining the use of internal models for credit risk, capital floors and revisions to the leverage ratio (known as 'Basel IV', see also "2.2.13 Some aspects of the manner how CRD IV/CRR is applied and/or will be amended in the future are uncertain.");
- proposals for transposing the FSB standard on total loss-absorbing capacity ("**TLAC**") developed for global systemically important institutions into the European resolution regime applicable to all banks by integrating the more stringent TLAC requirements into the minimum requirements for own funds and eligible liabilities ("**MREL**") as laid out in Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**");
- the envisaged revision of the regulations governing the European System of Financial Supervision with a possible view to impose fees on the supervised entities to finance the European supervisory authorities, namely the European Banking Authority ("**EBA**") and the European Securities and Markets Authority ("**ESMA**"); and
- a targeted review by the ECB as banking supervisory authority of the internal models used by banks within the eurozone, such as BAWAG Group, (the targeted review of internal models or "**TRIM**" project).

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

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

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

The aforementioned events and any other regulatory measures, as well as possibly a more stringent supervisory practice, including by the ECB, the FMA, and for the Issuer's German subsidiaries, the German Federal Financial Services Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**"), in the future may, once adopted or implemented, influence the profitability of BAWAG Regulatory Group's business activities, require adjustments of its business practices and/or increase costs, including compliance costs. Implementing the required changes may also require the attention and substantial resources of BAWAG Regulatory Group's management. BAWAG Regulatory Group may face higher financing and/or capital costs and restrictions on its growth or permitted business activities. The business model of BAWAG Group as well as individual business areas could be endangered. Any reforms of regulatory law or practice could affect the financial position, assets, profitability and business prospects of BAWAG Group, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

2.1.2.2 *European and Austrian legislation regarding the resolution of banks, in particular the powers of resolution authorities to ensure resolvability and to force shareholders and creditors to participate*

in a situation of crisis, could, if such steps were taken to ensure that BAWAG Group or critical functions thereof continue(s) as a going concern, significantly affect BAWAG Group's business operations.

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

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

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

Regulatory measures under the BRRD resolution framework as implemented in the BaSAG and as applicable under the SRM Regulation taken in the event of failure of the Issuer or any of its banking subsidiaries, in particular the participation of the Issuer's shareholders, holders of other relevant capital instruments and/or creditors and/or the use of any other of the available resolution tools, may severely affect the rights of the Holders of the Notes as it may result in the cancellation of distributions on the Notes and the Write-Down in full or in part of the Notes and hence in the loss of the entire investment.

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

In December 2010, the BCBS published a set of comprehensive changes to the international capital adequacy framework, known as 'Basel III', which have been implemented into EU law by a legislative package. This legislative package consists of the directly applicable CRR and the CRD IV (together, the "**CRD IV/CRR**" package) which has been implemented in Austria by amendments to the BWG. The implementation of Basel III into European and Austrian law brought stricter requirements on the eligibility of capital instruments and items as regulatory own funds, higher minimum capital ratios, introduced new capital buffers and a binding liquidity coverage ratio (the "**LCR**") and equipped the competent supervisors with discretion to a certain extent as regards additional buffers. The CRD IV/CRR package became effective on 1 January 2014, with some regulatory requirements gradually phasing in through 1 January 2023.

The minimum capital requirements (so-called 'Pillar 1 requirements') for EU and thus Austrian credit institutions are primarily set forth in the CRR. The CRR requires each credit institution to maintain an adequate level of regulatory capital in relation to its risks. Relevant risks include, in particular, credit risk, market risk and operational risk (including, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). Common Equity Tier 1 ("**CET 1**")

capital forms the key component of a credit institution's regulatory capital for compliance with the capital requirements under the CRR. CET 1 capital primarily consists of share capital, retained earnings and other reserves, subject to certain regulatory adjustments. Another component of regulatory capital is AT 1 capital which includes, for example, certain unsecured subordinated perpetual capital instruments and related share premium accounts. Generally, the terms and conditions of all instruments recognised as CET 1 capital must require that the principal amount of the instruments will be written down, or converted into CET 1 capital when the CET 1 capital ratio of the relevant institution falls below a minimum of 5.125% (or such higher level as the issuing institution may determine), although regulators may require a higher trigger, for example for stress-testing purposes. CET 1 capital and AT 1 capital together constitute "Tier 1" capital. Tier 1 capital requirements are aimed at ensuring the ability to absorb losses on a "going concern" basis. T2 capital forms the lower tier of the regulatory capital and generally consists of long-term subordinated debt instruments with loss absorption capacity only on a "gone concern" basis. Tier 1 capital and T2 capital together constitute the "own funds" of a credit institution. The CRR gradually excludes certain existing capital instruments (which have been issued in the past) from their eligibility as own funds (so-called 'phasing out') or reclassifies those instruments to a lower own funds quality. For example, existing hybrid capital instruments will, over time, be phased out as AT 1 capital. Furthermore, the former Tier 3 capital is no longer recognised as own funds under the CRR.

The minimum requirements for Tier 1 capital amount to 6% since 1 January 2015. The total capital ratio without capital buffers has remained at 8% of risk-weighted assets.

The introduction of capital buffers is addressed in the CRD IV and implemented into Austrian law by the BWG and the Capital Buffers Regulation (*Kapitalpuffer-Verordnung – KP-V*). All capital buffers have to consist of CET 1 capital. Since the beginning of 2016, the BWG requires Austrian credit institutions to build up a permanent capital conservation buffer of 2.5% of risk-weighted assets (in annual steps of 0.625%). Furthermore, the following additional capital buffers may be prescribed by national legislators or supervisory authorities: (a) a countercyclical capital buffer of up to 2.5% (in annual steps of 0.25%) of risk-weighted assets generated in the respective EU member state (for Austria and Germany, the relevant national countercyclical capital buffer rates have been set by the FMA and the BaFin at 0% as of 2017, respectively); (b) a systemic risk buffer (for Austrian credit institutions, the systemic risk buffer may be set between 1 and 2% and is relevant since 1 January 2016; for BAWAG Regulatory Group, a systemic risk buffer has been set by the FMA at 1% and has to be maintained in the following steps: as of 2016: 0.25%, as of 2017: 0.5% and as of 2018: 1%), and further (c) a buffer for global systemically important institutions (which does not apply to BAWAG Group) and (d) a buffer for other systemically important institutions (which generally applies to BAWAG Group, but is not materially relevant since the systemic risk buffer is higher than the buffer for other systemically important institutions and only the higher of those two buffers is applied). On a risk-weighted basis for the financial year 2017, the consolidated countercyclical buffer for BAWAG Group amounted to 0.0658%.

In addition, the regulatory authorities that oversee BAWAG Regulatory Group, in particular the ECB within the SSM, may, in connection with the SREP or otherwise, conduct stress tests and have discretion to impose additional capital requirements for risks that are not otherwise recognised in the statutory capital requirements or other surcharges depending on the individual situation of the bank and may also take or require to be performed, other measures such as restrictions on or changes to a bank's business. In this context, the ECB has imposed and is expected to impose in the future on an annual basis on BAWAG Regulatory Group individual capital requirements resulting from the SREP which are referred to as 'Pillar 2 requirements'. Pillar 2 requirements must be fulfilled with CET 1 capital in addition to the statutory capital and buffer requirements, and any non-compliance may have immediate legal consequences such as restrictions on dividend payments and other distributions. Also following the SREP, the ECB may communicate to individual banks or banking groups, including BAWAG Regulatory Group, (and has done so in the past) an expectation to hold further CET 1 capital, the so-called 'Pillar 2 guidance'. Although the Pillar 2 guidance is not legally binding and failure to meet the Pillar 2 guidance does not automatically trigger legal action, the ECB has stated that it expects banks to meet the Pillar 2 guidance. For 2018, the Pillar 2 guidance has been set at 1%.

On 23 November 2016, and following a broader review of the rules currently in place, the European Commission published a proposal to change the CRD IV/CRR package (so far, such proposal is referred to as "**CRD V/CRR II**"), the SRM Regulation and the BRRD. As part of the CRD V/CRR II proposal, a binding leverage ratio of 3% of Tier 1 capital is proposed in order to prevent institutions to excessively increase their leverage. In addition, it is proposed that institutions will be required to meet, amongst others, a binding net stable funding ratio (the "**NSFR**"), more risk-sensitive capital requirements for counterparty credit risk, market risk and exposures to central counterparties and tighter regulation of large exposures. With regard to the recovery and resolution framework, the European Commission proposes, *inter alia*, to align the FSB's new standard on a TLAC applying to global systemically important banks with the MREL requirements and to change the ranking of unsecured debt instruments in the insolvency hierarchy. These proposals are now subject to the EU co-decision process and will likely be subject to further changes over the coming months. While BAWAG Regulatory Group does not qualify as a global systemically important banking group subject to TLAC requirements, this may also impact the MREL requirements applicable to BAWAG Regulatory Group in the future.

The CRD V/CRR II package also contains a proposal to authorise national competent authorities to impose additional own funds requirements on regulated entities such as BAWAG Regulatory Group if, *inter alia*, the entity is exposed to risks that are not covered by the normal own funds requirements. It is proposed that at least a quarter of these additional own funds requirements must be met with Tier 1 capital of which three quarters must be CET 1 capital. The need to comply with the aforementioned existing and proposed requirements and the change in ranking of certain debt instruments issued or to be issued by BAWAG Regulatory Group could have a material adverse effect on BAWAG Group's profitability, business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes. In particular, if the above-mentioned requirements are not met, the Issuer may be required to cancel the payment of distributions on the Notes that are scheduled to be paid pursuant to the Terms and Conditions of the Notes.

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

In order for banks to have available sufficient amounts of equity and debt eligible to absorb losses in resolution and to be utilised in case of a bail-in so that resolution can occur without recourse to public financial support, banks are required under the SRM Regulation and BaSAG to meet MREL requirements at all times. MREL requirements are determined on case-by-case basis for each institution or banking group by the competent resolution authority, which in the case of BAWAG Regulatory Group is the SRB. Under the currently applicable legal regime, MREL ratios are expressed as a percentage of the total liabilities and own funds of the relevant institution; as part of the European Commission's proposal of 23 November 2016 to amend the BRRD and the SRM Regulation, it is intended to change this approach to express MREL as percentages of the total risk exposure amount and the leverage ratio exposure measure. The SRB as the competent resolution authority for BAWAG Regulatory Group under the SRM Regulation may also require, that such percentage is wholly or partially composed of own funds or of a specific type of liabilities. BAWAG Regulatory Group expects that the SRB will start to issue individual MREL requirements in 2018. As of the date of this Prospectus, the SRB has not yet announced any MREL requirements for BAWAG Regulatory Group. The Issuer expects the SRB to specify MREL requirements for BAWAG Regulatory Group in the first quarter of 2019. The MREL requirements and their required structure will presumably have an effect on the balance sheet structure and the composition of funding of BAWAG Regulatory Group and they could have a material adverse effect on BAWAG Regulatory Group's profitability, business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

2.1.2.5 The Issuer, as a financial holding company which is currently indirectly subject to consolidated supervision, may become subject to direct and more stringent supervision in the future.

The Issuer conducts its business via subsidiary companies, some of which qualify as credit institutions. The Issuer qualifies as a parent financial holding company and, together with its subsidiaries, constitutes a regulatory banking group (*Kreditinstitutsgruppe*) within the meaning of § 30 BWG but is not subject to prudential banking regulation and supervision itself. Pursuant to § 30(5) and (6) BWG, BAWAG P.S.K. must comply with the prudential requirements of the BWG on a consolidated basis. Therefore, at present, the Issuer is under no direct obligation to comply with prudential banking regulations. It is, however, indirectly subject to consolidated supervision. In the CRD V/CRR II package dated 23 November 2016, the European Commission proposes, *inter alia*, to bring financial holding companies directly within the scope of the prudential regulation framework. In diverging from the current legal situation, financial holding companies would be directly responsible to comply with consolidated prudential requirements under the proposal where consolidated supervision applies. In addition, financial holding companies would need to obtain approval to operate a banking group from the ECB, which may be coupled with additional requirements in relation to the risk management and compliance system.

If these proposals were implemented, a direct and more stringent supervision of the Issuer could materially and adversely affect the Issuer's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

The EBA is required to at least annually consider whether it is appropriate to carry out EU-wide assessments of the resilience of financial institutions. The EBA decided not to carry out an EU-wide stress test in 2017. In 2017, the ECB also carried out a sensitivity analysis of interest rate risk in the banking book (the so-called 'IRRBB stress test 2017') for all banks under its direct supervision, including BAWAG Regulatory Group, in order to examine how hypothetical changes in the interest rate environment would affect banks in the eurozone. The results were published on 9 October 2017.

On 31 January 2018, the EBA launched its next EU-wide stress test and intends to publish the results by 2 November 2018.

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

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

BAWAG Group has been, and expects to be, subject to periodic and ad hoc audits, inspections and similar investigations conducted by regulators which focus on BAWAG Group's compliance with applicable laws and regulations. This may for example include inspections conducted by or on behalf of the ECB or the Central Bank of Austria ("**OeNB**") for prudential purposes or audits conducted by or on behalf of the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung*) or the FMA, in each case either on a random basis or on a targeted basis such as in case of indications for the non-compliance with banking regulatory requirements or the infringement of accounting standards. It cannot be ruled out that the findings in any of those audits, inspections and similar investigations will lead to supervisory action and/or (additional) requirements for BAWAG Group imposed by the regulators and/or adversely affect BAWAG Group's reputation should those findings become public.

In the first quarter of 2017, BAWAG Regulatory Group was subject to an on-site inspection requested by the ECB with respect to the treatment and management of credit risk in certain business areas, in particular two international retail mortgage loan portfolios (a U.K. residential mortgage loan portfolio acquired in December 2015 and a French residential mortgage loan portfolio acquired in December 2016 through a French securitization vehicle). Furthermore, the organisational framework, policies and procedures and the credit risk management in these areas were evaluated and an analysis of risk-based samples of relevant credit files was conducted. According to the ECB's findings which were finalised in September 2017, the on-site inspection identified a number of shortcomings in the areas investigated, having a material impact on BAWAG Regulatory Group's risk-weighted asset levels and own funds ratio. The implementation of the required changes to address the identified shortcomings and to meet the requirements imposed on BAWAG Regulatory Group, included, for example, a reclassification of the individual customers in the U.K. mortgage loan portfolio and the taking out of a global insurance policy for such portfolio; these measures have involved and may continue to involve financial and other resources. In addition, the adopted reclassifications have resulted in adjustments to the reported risk-weighted asset level of both portfolios.

It can also not be excluded that the alleged breach of the large exposure limit referred to in the on-site inspection report with respect to the period from the acquisition of the French mortgage loan portfolio will result in sanctions being imposed. BAWAG Group anticipates that any potential fines would not exceed a € million amount in the high teens, and has set aside reserves in this range for this risk in its consolidated accounts.

The realisation of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects (including the occurrence of a Trigger Event in case of a significant deduction from the CET 1 ratio of BAWAG Regulatory Group).

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

In 2012, the EU adopted the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories or "**EMIR**"). EMIR requires the clearing via a central counterparty of certain standardised over-the-counter ("**OTC**") derivative contracts the average value of which is reaching or exceeding specified clearing thresholds during a 3--day period, reporting to trade repositories and various risk mitigation techniques depending on the counterparty's status, including rules regarding margining and collateral arrangements. Accordingly, EMIR and related developments such as the adoption of MiFID II and the new Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (the Markets in Financial Instruments Regulation or "**MiFIR**") may require adaptations of its commercial practices and further increase costs, including compliance costs. The requirements imposed by EMIR and MiFID II already resulted in higher costs which are primarily due to higher ongoing expenditures for software applications and personnel required to address new requirements relating to, *inter alia*, transaction reporting, trade reporting, cost transparency, new technical standards and initial margins for non-cleared derivatives.

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

Following the sovereign debt crisis, the ECB has intervened in the money market via a series of measures, including facilitating the access to low-interest loans with favourable collateral requirements for European financial institutions. Any tightening of these collateral standards (such as the rating for collateral securities) could increase the cost of funding of BAWAG Group. Any limitation imposed on BAWAG Group's access to liquidity at adequate terms could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

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

BAWAG Group dedicates significant funds, personnel, technical and other resources to its compliance with anti-money laundering, anti-tax evasion (including the Foreign Account Tax Compliance Act ("**FATCA**") and the Common Reporting Standard (transposed into Austrian law by *Gemeinsamer Meldestandard Gesetz – GMSG*)), anti-corruption and anti-terrorism financing rules and sanctions and may even have to step-up these efforts in line with a future tightening of these rules.

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

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

The tax framework under which BAWAG Group operates is subject to changes that could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. As of 1 January 2011, Austrian banks are subject to a stability tax to fund government-borne bank recapitalisation expenditures. The financial burden of BAWAG Group amounted to € 30.5 million in the financial year 2017 (€ 4.6 million bank levy 2017, € 17.7 million contributions to the deposit guarantee scheme and € 8.2 million contributions to the Austrian bank resolution fund). Any increase of the stability tax or its imposition in addition to the said *ex-ante* contributions could result in substantial additional costs for BAWAG Group and could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

Furthermore, the applicability of the cost sharing VAT exemption for financial services was denied by the Court of Justice of the European Union in a recent ruling. In 2016, BAWAG Group received services in the amount of € 5.4 million from cost sharing entities outside of BAWAG Group (thereof 20% VAT). The removal of the cost-sharing exemption could lead to the removal of the VAT exemption for services between certain financial institutions which could also have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

BAWAG Group assumes that it will be able to deduct goodwill amortisations and tax loss carryforwards from its taxable income. For each of the financial years 2018 to 2021 (inclusive), BAWAG Group expects to deduct goodwill amortisations from the acquisition of BAWAG P.S.K. of approximately € 76 million, resulting in a total projected reduction of its taxable income of approximately € 302 million. BAWAG Group expects that its deferred tax assets from prior tax loss carryforwards will be fully absorbed through the first half of the financial year 2019. The deductibility of these goodwill amortisations and tax loss carryforwards is based on a number of assumptions, including, among others, the correct recognition of these items, certain earning levels and unchanged tax regulations. If any of these assumptions prove incorrect, BAWAG Group may not be able to deduct these items (in whole or in part) from its taxable income resulting in higher than expected tax payments which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

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

The Deposit Guarantee Scheme Directive (Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes or the "DGSD") requires each EU member state to have in place one or more deposit guarantee schemes ("DGS") and further requires that, until 3 July 2024, each national DGS is provided with financial means collected through *ex-ante* contributions of the participating banks at a target level of, in general, 0.8% of covered deposits of all its member banks. As the former Austrian mandatory DGS did not require *ex-ante* funding but only obligated member banks to make *ex-post* contributions following the occurrence of a protection event, i.e. after deposits of any member bank would have become unavailable and the DGS had to protect depositors, Austria was required to introduce annual *ex-ante* funding to its national DGS. The DGSD has been implemented into Austrian law through the Federal Act on the Deposit Guarantee and Investor Compensation by Credit Institutions (*Bundesgesetz über die Einlagensicherung und Anlegerentschädigung bei Kreditinstituten* – "ESAEG") on 14 August 2015 which has triggered an additional financial burden for BAWAG Regulatory Group (which amounted to € 17.7 million in the financial year 2017). Further, in case the regular contributions to the DGS are not sufficient to cover a protection event, in total an additional contribution per calendar year of up to 0.5% – or more if approved by the FMA – of covered deposits of its members will have to be paid. Such burden could have an adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

Thus, the IRÄG 2017 may result in some consumers being released from their debts without performing any payments, increasing the number of insolvency proceedings and reducing recoveries. Furthermore, this may lead to lower price bids in the context of Austrian non-performing loan (NPL) sales.

Consequently, this may result in reduced recovery from defaulted retail loans and thus may have a negative impact on BAWAG Group's financial and earnings position, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

to customers of BAWAG Group, a large number of standardised documents, contracts or terms and conditions could be affected.

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

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

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

BAWAG Group operates funded and unfunded defined benefit pension schemes and defined contribution schemes for beneficiaries to which employee pension benefits are offered (as element of their overall employee benefits). As of 31 December 2017, BAWAG Group had total defined benefit obligations (DBO) (under IAS 19) amounting to € 256 million of which € 6 million are funded by plan assets administered by the respective pension insurance funds for the Austrian banking sector. In the financial years 2017 and 2016, the annual expenses (*Jahresaufwände*) recorded in its consolidated profit and loss statements (service cost and net interest expense) amounted to € 5 million and € 7 million, respectively, while pension benefits payments and contributions to pension insurance funds which were recognised as usage of the pension provision for defined benefit schemes (*Leistungs- und Beitragszahlungen*) amounted to € 12 million and € 12 million, respectively. In addition, contributions to pension insurance funds for defined contribution schemes (*Beitragszahlungen*) amounted to € 16 million and € 7 million, respectively.

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

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

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

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

BAWAG Group is subject to national and international laws and regulations governing the collection, use, retention, sharing and security of personal data. A failure to comply with applicable laws or regulations could have an adverse impact on BAWAG Group's reputation and subject BAWAG Group to penalties or claims, which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects. The need to comply with data protection legislation results in significant controlling, operational and reputational risks which can affect BAWAG Group in a number of ways including, for example, making it more difficult to maintain and exploit marketing data and also through potential litigation relating to the alleged misuse of personal data. Regulation regarding data collection and data protection may also become

more stringent in the future. Thus, new laws, regulations or developments in this field and changes in consumer behaviour could interfere with BAWAG Group's strategies to use privacy-related information for its marketing efforts, particularly with respect to its retail customers, could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects.

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

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

The realisation of any of these risks could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

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

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

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

2.1.2.21 BAWAG Group is affected by the new accounting standard IFRS 9, which negatively impacts the Company's own funds and financial condition and may lead to increased volatility of the Company's profit and loss accounts and in equity in its financial statements.

The IASB published a new standard on financial instruments accounting (IFRS 9 Financial Instruments) in 2014, which became effective in the financial year 2018. The new standard includes revised guidance on the classification and measurement, impairment and hedge accounting of financial instruments. This guidance leaves room for interpretation on how to implement the various requirements. There is not yet a fully harmonised view at the international level on the proper interpretation, neither within the community of local banking regulatory authorities, nor within the international community of financial auditors. In any case, the impact on banks and their accounting is expected to be substantial. The implementation of the new standard at BAWAG Group will lead to increased administrative expenses. Furthermore, the new standard has a negative impact on BAWAG Group's opening balance for the financial year 2018 and will have a negative impact on the results of operations in the financial year 2018. Moreover, due to the new classification and measurement rules, more financial assets are measured at fair value (either in the profit and loss accounts or through other comprehensive income). As a result of this and of the new impairment rules, the volatility of the Company's profit and loss accounts and in equity in its financial statements could increase. The first-time application of IFRS 9 as of 1 January 2018 reduces BAWAG Group's CET 1 capital ratio (fully loaded) by approximately 0.10 percentage points.

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

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

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

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

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

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

At present, BAWAG Group is party to the following proceedings which could have a significant financial impact on BAWAG Group:

- BAWAG Group is party to proceedings against the City of Linz before the Commercial Court of Vienna which could have a significant financial impact on BAWAG Group. In November 2011, the City of Linz sued BAWAG P.S.K. for payment of CHF 30.6 million (corresponds to an amount of approximately € 24.2 million for the purposes of the court procedure) plus interest and costs. The City of Linz bases its claim on the allegation that a swap transaction into which it entered with BAWAG P.S.K. was void. BAWAG P.S.K. rejects these claims and has filed a counter-claim seeking payment of € 417.7 million plus interest and costs from the City of Linz. For reasons of utmost precaution, this receivable has been written down to a carrying value of approximately € 254 million in the financial year 2011. BAWAG P.S.K. bases its claim on costs related to the termination of the swap transaction and an outstanding payment due under the swap transaction. Were the court to hold that the swap transaction was void, BAWAG P.S.K. could be obligated to pay the claimed amount to the City of Linz in full or in part, and BAWAG P.S.K. may not be awarded, in full or in part, the payment sought and would then be required to further write down its claims. In addition, even if the court holds that the swap transaction was valid, BAWAG P.S.K. may still not be awarded, in full or in part, the payment sought, in which case it would be required to further write down its claims. Finally, depending on the outcome of the proceedings, BAWAG P.S.K. may be required under statutory law to bear some or all of the court and legal fees of the City of Linz. A decision in the first instance is expected at the earliest in 2019.
- BAWAG Group is a party to several proceedings before different courts relating to the insolvency of the ALPINE, which could have a significant financial impact on BAWAG Group. BAWAG P.S.K. was joint lead manager or co-lead manager for bonds issued by ALPINE Holding GmbH from 2010 to 2012. In July 2013, insolvency proceedings were opened regarding this corporate issuer. Several claims have been filed against the banks involved in the issuance and the distribution of ALPINE bonds, among them BAWAG P.S.K. Generally, these claims allege either erroneous investment advice or prospectus liability (or both). Following an internal assessment of the claims based on erroneous investment advice, BAWAG Group identified and consequently settled a limited number of cases that it believed were well founded. The remaining claims currently filed against BAWAG Group amount to approximately € 28.5 million which are (also) based on prospectus liability and in certain cases (amounting to an aggregate volume of € 12 million in dispute) are also grounded on allegedly erroneous investment advice. In addition, further claims based on prospectus liability could be brought against BAWAG P.S.K. In order to assess whether the prospectus liability claims against BAWAG Group as

well as other involved banks are well founded, the competent court appointed an expert in April 2015. The expert opinion was originally scheduled to be submitted in March 2018 but has been delayed due to a dispute regarding the expert's impartiality. Since numerous witnesses are expected to be heard by the court and the expert and no court hearings have been scheduled as of the date of this Prospectus, there is no set date for presentation of the expert's opinion. The expert regularly updates the parties to the proceedings on her findings. Based on the information shared to date, BAWAG Group believes that there is no substantiated indication that there will be a basis for a prospectus liability claim, while the outcome of the proceedings – which are still pending in the first instance – is not conclusively predictable. Furthermore, in May 2017, the public prosecutor's office denied continuation of the prosecution and investigation against unidentified members of the lead arrangers (*Anzeige gegen Unbekannt*) for criminal wrongdoing relating to the issuance of the bonds of ALPINE Holding GmbH. Following such decision, several investors had filed a request for the continuation of the investigations. On 24 January 2018, the regional court for criminal matters of Vienna (*Landesgericht für Strafsachen Wien*) dismissed such request and the decision of the public prosecutor's office is now final. In its reasoned statement, the public prosecutor held that there was no indication that members of the lead arrangers committed any unlawful acts in connection with the issuance or the distribution of the bonds of ALPINE Holding GmbH. However, it cannot be excluded that the civil law courts may find in favour of the claimants and order BAWAG P.S.K. to pay the entire amount claimed to the bond investors.

- On the other hand, BAWAG Group and other banks sued Austria to enforce guarantees which Austria had granted under the Act on the Strengthening of Company Liquidity (*Unternehmensliquiditätsstärkungsgesetz – "ULSG"*) with respect to certain repayment claims of these banks against ALPINE Bau GmbH. The claims of BAWAG Group amount to approximately € 19 million. The guarantee claims are being pursued by the banks in two separate legal proceedings. On 18 August 2017 BAWAG Group and the other banks obtained a favourable judgment from the court of first instance (*Handelsgericht Wien*) in the legal proceedings referred to as "ULSG II" obliging Austria to pay an amount equal to € 7.5 million (plus default interest) to BAWAG Group. The court of appeals (*Oberlandesgericht Wien*) repealed the judgement and remitted the case to the court of first instance for judgement after a supplementary taking of evidence. In the event that the court-appointed expert concludes that the prospectus liability claims were well founded and/or that the banks knew, or should have known, about the unsound financial situation of the ALPINE Group, this may also negatively impact the cases against Austria, which could force BAWAG Group to write off the repayment claim of approximately € 19 million. If these risks were to materialise, this could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

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

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

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

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

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

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

- *Regulations generally applicable to companies.* In addition to the specific regulations applicable to financial service providers, BAWAG Group must comply with a series of other regulations relating to general corporate law areas such as labour, competition and tax law. These regulations and their interpretation by the competent authorities are subject to change. BAWAG Group expects that in the future, the costs associated with compliance with these regulations will increase which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.
- *Tax regulations.* The financial position, the assets position and the profitability of BAWAG Group is particularly dependent on the taxation of profits at the level of BAWAG Group, its subsidiaries and affiliates. Amendments to local tax law or other regulations could affect the ability or willingness of prospects to enter into business relations with members of BAWAG Group. Every amendment of the legal situation, judicial or administrative practice of taxation could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects, and may therefore adversely affect the ability of the Issuer to meet its obligations under the Notes.

2.2 Risks relating to the Notes

An investment in the Notes involves certain risks associated with the characteristics of the Notes. Such risks could result in principal or distributions not being paid on time or at all by the Issuer and/or a material impairment of the market price of the Notes. The following is a description of risk factors in relation to the Notes.

The Notes may not be a suitable investment for all investors if they do not have sufficient knowledge and/or experience in the financial markets and/or access to information and/or financial resources and liquidity to bear all the risks of an investment and/or a thorough understanding of the terms of the Notes and/or the ability to evaluate possible scenarios for economic, interest rate and other factors that may affect their investment.

Each potential investor in the Notes must determine the suitability of that investment (either alone or with the help of a financial advisor) in light of its own circumstances and the Note's complexity. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement hereto;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or distribution payments is different from the potential investor's currency;
- understand thoroughly the Terms and Conditions of the Notes and be familiar with the behaviour of financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, rate of distributions and other factors that may affect its investment and its ability to bear the applicable risks.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives all the information contained in this Prospectus or incorporated by reference herein, and should have sufficient financial resources and liquidity to bear the risks of an investment in the Notes, including the possibility that the entire principal amount of the Notes could be lost. A potential investor should not invest in the Notes unless he/she has the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of cancellation of payment of principal, payment of distributions or a write-down and the market price of the Notes, and the impact of this investment on the potential investor's overall investment portfolio.

2.2.1 **The Notes bear distributions at a rate that converts from a fixed distribution rate to a different fixed distribution rate at the First Reset Date. A Holder bears the risk that after such conversion, the new distribution rate may be lower than the then prevailing distribution rates.**

The Notes bear distributions at a rate that converts from a fixed distribution rate to a different fixed distribution rate at the First Reset Date. The conversion of the distribution rate may affect the market price of the Notes. If the distribution rate converts from a fixed distribution rate to a different fixed distribution rate, such fixed distribution rate may be lower than the then prevailing distribution rates payable on fixed distribution rate notes.

2.2.2 Holders are exposed to the risk that the price of the Notes falls as a result of changes in the market interest rate.

In periods for which a particular fixed rate of distributions is applicable, Holders are exposed to the risk that the price of the Notes falls as a result of changes in the market interest rate. While the nominal distribution rate of Notes is fixed for the distribution period, the current interest rate on the capital market for issues of the same maturity ("market interest rate") typically changes on a daily basis. As the market interest rate changes, the market price of the Notes also changes, but in the opposite direction. If the market interest rate increases, the market price of the Notes typically falls, until the yield of such Notes is approximately equal to the market interest rate. Additionally, even expected future changes of interest rates could cause a change of current market prices of the Notes.

2.2.3 The obligations of the Issuer under the Notes constitute direct, unsecured and subordinated obligations which are subordinated to the claims of all unsubordinated and subordinated creditors (other than subordinated claims ranking pari passu with or junior to the Notes) of the Issuer.

The Notes to be issued by the Issuer are intended to qualify with regard to BAWAG Regulatory Group's own fund requirements as Additional Tier 1 instruments pursuant to Article 52 CRR. They constitute direct, unsecured and subordinated obligations of the Issuer. In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:

- junior to all present or future: (i) unsubordinated instruments or obligations of the Issuer; (ii) (x) any Tier 2 Instruments; and (y) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to the unsubordinated obligations of the Issuer (other than instruments or obligations ranking or expressed to rank *pari passu* with or subordinated to the Notes);
- *pari passu*: (i) among themselves; and (ii) with all other present or future (x) AT 1 Instruments; and (y) instruments or obligations ranking or expressed to rank *pari passu* with the Notes; and
- senior to all present or future: (i) ordinary shares of the Issuer and any other CET 1 Instruments; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank: (x) subordinated to the obligations of the Issuer under the Notes; or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

Although the Notes may pay a higher rate of distributions than other debt instruments which are not subordinated, there is a substantial risk that investors in subordinated notes such as the Notes will lose all or some of their investment, should the Issuer become insolvent or, following a Write-Down, either have an insufficient Net Profit (as defined in the Terms and Conditions) to write up the Notes or decide in its sole discretion to not (or not fully) write up its Notes at all.

Furthermore, claims of the Issuer are not permitted to be set-off or netted against payment obligations of the Issuer under the Notes which are not, and may not become secured or subject to a guarantee or any other arrangement that enhances the seniority of the claim under the Notes. A Holder should therefore not expect to be able to set-off any obligations of the Issuer under the Notes against obligations of the Holder vis-à-vis the Issuer.

2.2.4 The Notes do not contribute to the determination of over-indebtedness of the Issuer.

The Holders are entitled to payments, if any, under the Notes only once any negative equity (*negatives Eigenkapital*) within the meaning of § 225(1) of the Austrian Enterprise Code (*Unternehmensgesetzbuch – UGB*) has been removed (*beseitigt*) or if, in the event of the liquidation (*Liquidation*) of the Issuer, all other creditors (other than creditors whose claims rank or are expressed to rank *pari passu* with or junior to the Notes) of the Issuer have been satisfied first.

Pursuant to the Terms and Conditions, no insolvency proceedings against the Issuer are required to be opened in relation to the non-performance of any obligations of the Issuer under the Notes. The claims of the Holders against the Issuer under the Notes are subordinated in accordance with § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung – IO*) and the Notes do not contribute to a determination that the liabilities of the Issuer exceed its assets; i.e. the obligations of the Issuer under the Notes, if any, will not contribute to the determination of over-indebtedness (*Überschuldung*) within the meaning of § 67(3) of the Austrian Insolvency Code.

Holders should therefore note that their claims under the Notes, when due but unpaid, will not result in an insolvency of the Issuer, and that they have no means to request the institution of insolvency proceedings against the Issuer on the basis of any claims under the Notes.

2.2.5 There is no restriction on the amount or type of further instruments, including those which may rank pari passu with or senior to the Notes and which depend, amongst others, on the Issuer's Distributable Items, or other indebtedness that the Issuer may issue, incur or guarantee.

The Terms and Conditions of the Notes place no restriction on the type or amount of instruments that the Issuer may issue or guarantee that ranks senior to, or *pari passu* with, the Notes. The Issuer may also issue instruments with trigger levels for write-down or conversion that are lower than those of the Notes (to the extent permitted by the Applicable Supervisory Regulations), so that such instruments absorb losses after the Notes.

The issue or guaranteeing of any such instruments may reduce the amount recoverable by Holders upon the Issuer's insolvency. If the Issuer's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including cancellation of distributions and reduction of the principal amount of the Notes and, if the Issuer were liquidated, the Holders could suffer loss of their entire investment (total loss).

In addition, the Issuer is not prohibited from issuing or guaranteeing other instruments that share in, or which depend upon, Distributable Items, thereby reducing the amount available for distributions under the Notes. This could result in distributions on the Notes being either reduced or even cancelled entirely.

2.2.6 The Issuer may, at its full discretion, cancel payments of distributions on the Notes. The cancellation of distribution payments will be definitive and non-cumulative.

The Issuer, at its full discretion, may, at all times cancel (in whole or in part) any payment of distributions on the Notes scheduled to be paid on any distribution payment date for an unlimited period and on a non-cumulative basis. The Issuer may use such cancelled distribution payments without restrictions to meet its obligations as they fall due.

Without prejudice to such full discretion of the Issuer, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date shall be cancelled mandatorily and automatically, in whole or in part, if and to the extent:

- the amount of such distribution payment scheduled to be paid together with any Additional Amounts thereon and any payments of interest, dividends or distributions that are simultaneously planned or made or that have been made by the Issuer on other Tier 1 Instruments in the then current financial year of the Issuer would exceed the amount of the available Distributable Items, provided that, for such purpose, the available Distributable Items shall be increased by (x) an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including payments of distributions together with any Additional Amounts thereon on the Notes) in the calculation of the profit (*Gewinn*) on which the available Distributable Items are based, and (y) any other amounts that may be included for the purposes of determining the amounts available for distributions on AT 1 Instruments under the Applicable Supervisory Regulations, as defined in the Terms and Conditions of the Notes, from time to time; or
- the Competent Authority orders the relevant distribution payment scheduled to be paid to be cancelled in whole or in part; or another prohibition on distributions is imposed by law or by the Competent Authority (including any prohibition on distributions as a result of the calculation of the Maximum Distributable Amount within the meaning of Article 141(2) CRD IV and as currently transposed into Austrian law by § 24(2) BWG).

Any distribution payment so cancelled will be non-cumulative and not compounding and will be cancelled permanently and no payments will be made nor shall any Holder be entitled to any payment or indemnity in respect thereof. Any such cancellation of distributions will not constitute an event of default of the Issuer and imposes no restrictions on the Issuer.

The Distributable Items of the Issuer will, *inter alia*, depend on its profits and those of its subsidiaries, including the dividends that it receives from its subsidiaries. If the Issuer's profits are weak, and/or if it does not receive any (or only small) dividends from its subsidiaries, the Distributable Items may not be sufficient for full (or any) payment of distributions on the Notes.

The Distributable Items will be determined on the basis of (i) the audited (*geprüften*) and adopted (*festgestellten*) unconsolidated annual financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date; or (ii) if such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant Distribution Payment Date, unaudited unconsolidated *pro forma* financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements.

There is however a risk, that these *pro forma* financial statements may deviate substantially from the audited financial statements for the same accounting period, and Holders are therefore exposed to the risk that they will not receive any distributions even if the audited financial statements show sufficient Distributable Items to make payments on the Notes.

Because the Issuer is entitled to cancel distribution payments at its full discretion, it may do so even if it could make such payments without exceeding the limits described above and even if it was intrinsically profitable. Distribution payments on the Notes may be cancelled even if the Issuer's shareholders continue to receive dividends and/or distributions are made on any

instruments ranking *pari passu* or junior to, the Notes. Furthermore, even if the Issuer was willing to make distribution payments on the Notes, it could be prevented from doing so by mandatory and automatic cancellation due to regulatory provisions and/or regulatory action (see "2.2.7 The Issuer may be required to cancel payments of distributions on the Notes for regulatory reasons."). In all such instances, Holders would receive no, or only reduced, distributions on the Notes.

Any actual or anticipated cancellation of distributions payments on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the distribution cancellation provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which distributions accrue that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Holder of Notes should be aware that there will be no circumstances under which distribution payments on the Notes will be compulsory for the Issuer. Holders should therefore not rely on receiving any distribution payments on the Notes, regardless of whether the Issuer has sufficient Distributable Items, and Holders should be aware that the market price of the Notes is subject to volatility and downturn, in particular in case of any indication that distribution payments on the Notes are or might be cancelled.

2.2.7 The Issuer may be required to cancel payments of distributions on the Notes for regulatory reasons.

Payments of distributions on the Notes will also be excluded if (and to the extent) such payments are prohibited or restricted under statutory law or by virtue of a decision of the competent supervisory authority of the Issuer.

As a "significant" group of institutions under a parent financial holding company in the eurozone for purposes of the SSM Regulation, BAWAG Regulatory Group is directly supervised by the ECB. In particular, the ECB supervises BAWAG Regulatory Group in relation to the own funds requirements set forth in the CRR as well as in relation to the requirement to establish a proper business organisation, which includes, *inter alia*, having in place appropriate risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes, as set forth in the BWG and transposed from the CRD IV. The FMA has certain remaining supervisory tasks in relation to BAWAG Regulatory Group.

The CRR requires BAWAG Regulatory Group to meet at all times, on a consolidated basis, a minimum amount of total own funds of 8% of the risk-weighted assets and also imposes minimum requirements for Tier 1 capital of 6% and CET 1 capital of 4.5% of risk-weighted assets (all within the meaning of the CRR). In addition, and on the basis of the annual SREP, the ECB has imposed on BAWAG Regulatory Group additional individual capital requirements referred to as Pillar 2 requirements which must be fulfilled with CET 1 capital in addition to the statutory minimum capital.

The CRD IV also introduced capital buffer requirements that must be met in addition to both the minimum capital requirements set forth in the CRR and the Pillar 2 requirements set by the ECB as a result of the annual SREP. The capital buffer requirements must be met with CET 1 capital. The respective CRD IV requirements have been implemented into Austrian law by §§ 23 to 23d BWG and the accompanying Capital Buffers Regulation (*Kapitalpuffer-Verordnung – KP-V*). All capital buffers have to consist of CET 1 capital. Since the beginning of 2016, the BWG requires Austrian credit institutions to build up a permanent capital conservation buffer of 2.5% of risk-weighted assets shall (in annual steps of 0.625%). Furthermore, the following additional capital buffers may be prescribed by the national legislators or the supervisory authorities: (a) a countercyclical capital buffer of up to 2.5% (in annual steps of 0.25%) of risk-weighted assets generated in the respective EU member state (for Austria and Germany, the relevant countercyclical capital buffer rates have been set by the FMA and BaFin at 0% as of 2017, respectively); (b) a systemic risk buffer (for Austrian credit institutions, the systemic risk buffer may be set between 1 and 2% and is relevant since 1 January 2016; for BAWAG Regulatory Group, a systemic risk buffer has been set by the FMA at 1% and has to be maintained in the following steps: as of 2016: 0.25%, as of 2017: 0.5% and as of 2018: 1%), and further (c) a buffer for global systemically important institutions (which does not apply to BAWAG Regulatory Group) and (d) a buffer for other systemically important institutions. On a risk-weighted basis for the financial year 2017, the consolidated countercyclical buffer for BAWAG Group amounted to 0.0658%. In accordance with Article 5(2) SSM Regulation, the ECB may, if deemed necessary, set higher buffer rates than those applied by FMA or BaFin. All applicable capital buffers are aggregated in a combined buffer requirement as set forth in § 2 no. 45 BWG.

If BAWAG Regulatory Group fails to meet the combined buffer requirement, which is the case if the group does not have sufficient CET 1 capital in an amount needed to meet at the same time (a) its minimum capital requirements under the CRR, (b) any additional capital requirements, such as the Pillar 2 requirement imposed on BAWAG Regulatory Group by the ECB on the basis of the annual SREP, and (c) the sum of the capital buffers applicable to it, BAWAG Regulatory Group would be required to calculate the Maximum Distributable Amount, notify such amount to the FMA without delay in accordance with § 24(2) BWG and prepare and submit to the FMA a capital conservation plan in which BAWAG Regulatory Group needs to explain how to increase its own funds with the objective of meeting fully the combined buffer requirement. Prior to the calculation of the Maximum Distributable Amount, the Issuer would be prohibited from making any payments of distributions on the Notes. In any event, however, the Issuer may make payments of distributions on the Notes only up to the amount of its Maximum Distributable Amount if and so long as BAWAG Regulatory Group fails to meet the combined buffer requirement.

The Maximum Distributable Amount is calculated as a percentage of the profits of the institution accrued since the last distribution of profits as further defined in § 8 of the Austrian Capital Buffers Regulation (*Kapitalpuffer-Verordnung – KP-V*). The applicable percentage is scaled according to the extent of the breach of the combined buffer requirement. As an example, if the

scaling is in the bottom quartile of the combined buffer requirement, no discretionary distributions will be permitted to be made. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the Issuer's discretion to cancel (in whole or in part) payments of distributions on the Notes. On 19 December 2017, BAWAG Regulatory Group has been informed by the ECB that it is required, on a consolidated basis, to maintain a CRR/CRD IV phase-in CET 1 capital ratio of at least 9.691% from 1 January 2018 onwards, including the minimum Pillar 1 requirement (4.50%), the Pillar 2 requirement (2.25%), the capital conservation buffer (1.875%), the countercyclical capital buffer (0.0658%) and the systemic risk buffer (1.0%). For 2019, the combined buffer requirement is expected to increase to approximately 3.6135%.

As at 31 December 2017, BAWAG Regulatory Group's Tier 1 ratio (transitional/fully loaded) was 13.53/13.49%. For the Maximum Distributable Amount calculation, the applicable Pillar 1 and Pillar 2 requirements and the combined buffer requirements are taken into account but not the Pillar 2 guidance. The Maximum Distributable Amount restriction level for the BAWAG Regulatory Group is at approximately 11.47% (Maximum Distributable Amount restriction level calculation based on 2018 requirement) as parts of the Tier 1 and Tier 2 requirements currently have to be covered by CET 1 capital. Consequently, as of 31 December 2017, the buffer to Maximum Distributable Amount restriction level is 2.1% (or EUR 0.4 billion).

In addition and under certain conditions, the ECB may restrict or prohibit all or part of the payments of distributions as set forth in Article 16(1) in connection with (2) point (i) SSM Regulation. Pursuant to Article 16(1) SSM Regulation, the ECB has the powers set out in Article 16(2) SSM Regulation to require a "significant" group of credit institution under a parent financial holding company in a participating EU member state (such as BAWAG Regulatory Group) to take the necessary measures at an early stage to address relevant problems in particular (a) when the group does not meet the requirements of the CRR or the CRD IV or (b) when there is evidence that the group is likely to breach these requirements within the next twelve months. Pursuant to Article 16(2) point (i) SSM Regulation, the ECB has the power to restrict or prohibit distributions by any entity within the group to shareholders, members or holders of AT 1 instruments where the prohibition does not constitute an event of default of the entity. Relevant cases where the ECB may restrict or prohibit the Issuer from making any payment of distributions exist, for example, if BAWAG Regulatory Group does not meet the minimum own funds requirements set forth in the CRR or any additional capital requirements ordered by the ECB, such as the Pillar 2 requirements set by the ECB as a result of the annual SREP.

Accordingly, even if the Issuer is intrinsically profitable and willing to make payments of distributions on the Notes, it could be prevented from doing so by regulatory provisions and/or regulatory action. In all such instances, Holders would receive no, or reduced, payments of distributions on the relevant interest payment date.

See also "2.2.13 Some aspects of the manner how CRD IV/CRR is applied and/or will be amended in the future are uncertain." and "2.2.14 Future legislative reforms may lead to additional restrictions with regard to payments of distributions on the Notes."

2.2.8 The regulatory classification of the Notes as Additional Tier 1 instruments may be changed.

In the opinion of the Issuer, the Notes shall qualify with regard to BAWAG Regulatory Group's own fund requirements as AT 1 Instruments pursuant to Article 52 CRR upon issue. During the approval process of the Prospectus, the CSSF does not assess the regulatory classification of the Notes as AT 1 Instruments of the Issuer. There is the risk that there is a change in the regulatory classification of AT 1 Instruments that would be likely to result in the exclusion of the Notes from own funds or reclassification as a lower quality form of own funds. If that is the case, this can have a negative impact on the capitalisation of the Issuer.

2.2.9 The Issuer may be required to reduce the initial principal amount of the Notes to absorb losses, which would reduce any redemption amount and any distribution payable on the Notes while the Notes are written down.

The Notes are issued in order to meet prudential capital requirements with the intention and purpose of being eligible as own funds of BAWAG Regulatory Group.

The eligibility of the Notes to classify as AT 1 Instruments depends on a number of statutory conditions being satisfied. One of these conditions relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, under the Terms and Conditions of the Notes, if a Trigger Event has occurred, the Issuer will reduce the then prevailing Current Principal Amount (as defined in the Terms and Conditions) of each Note by the relevant Write-Down Amount. Such Trigger Event occurs, at any time, if the Group CET 1 Capital Ratio (i.e. the CET 1 capital ratio pursuant to Article 92(2)(a) CRR of the BAWAG Regulatory Group on a consolidated basis) is lower than the Trigger Level (which is determined at 5.125 per cent. in the Terms and Conditions).

Holders of Notes should be aware that the composition of the BAWAG Regulatory Group, which among other things is relevant for determining whether a Trigger Event has occurred, may change from time to time for reasons such as any future changes in the Applicable Supervisory Regulations dealing with the requirements for prudential consolidation or corporate actions related to the BAWAG Regulatory Group.

For the avoidance of doubt, a Trigger Event may be determined and may occur at any time and may occur on more than one occasion and each Note may be subject to a Write-Down on more than one occasion. The occurrence of a Trigger Event, which would result in a Write-Down of the Current Principal Amount of the Notes, is inherently unpredictable and depends on a number of factors, many of which may be outside the Issuer's control. The aggregate reduction of the aggregate Current Principal Amount of all Notes outstanding on the Effective Date, will be equal to the lower of: (i) the amount necessary to generate sufficient CET 1 capital pursuant to Article 50 CRR that would restore the Group CET 1 Capital Ratio to the Trigger Level at the point of such reduction, after taking into account (subject as provided below) the *pro rata* write-down and/or conversion of the prevailing principal amount of all Loss Absorbing Instruments (if any) to be written down and/or converted concurrently (or substantially concurrently) with the Notes, provided that, with respect to each Loss Absorbing Instrument (if any), such *pro rata* write-down and/or conversion shall only be taken into account to the extent required to restore the Group CET 1 Capital Ratio contemplated above to the lower of: (x) such Loss Absorbing Instrument's trigger level; and (y) the Trigger Level and, in each case, in accordance with the terms of the relevant Loss Absorbing Instruments and the Applicable Supervisory Regulations; and (ii) the amount that would result in the Current Principal Amount of a Note being reduced to EUR 0.01.

Such aggregate reduction shall be applied to each Note *pro rata* on the basis of its Current Principal Amount prevailing immediately prior to the Write-Down and "**Write-Down Amount**" shall mean, in respect of each Note, the amount by which the Current Principal Amount of such Note is to be written down accordingly.

If, in connection with the Write-Down or the calculation of the Write-Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down and/or converted in full and not in part only (the "**Full Loss Absorbing Instruments**") then:

- (i) the provision that a Write-Down of the Notes should be effected *pro rata* with the write-down and/or conversion, as the case may be, of any Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written Down in full solely by virtue of the fact that such Full Loss Absorbing Instruments (as defined in the Terms and Conditions) may be written down and/or converted in full; and
- (ii) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write-down of principal and/or conversion, as the case may be, among the Notes and any Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write-down and/or conversion, such that the write-down and/or conversion of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (x) first, the principal amount of such Full Loss Absorbing Instruments shall be written down and/or converted *pro rata* (in the manner contemplated above) with the Notes and all other Loss Absorbing Instruments to the extent necessary to restore the Group CET 1 Capital Ratio to the Trigger Level; and (y) second, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (x) shall be written off and/or converted, as the case may be, with the effect of increasing the Group CET 1 Capital Ratio above the Trigger Level.

To the extent the write-down and/or conversion of any Loss Absorbing Instruments is not possible or not made for any reason, this shall not in any way prevent any Write-Down of the Notes. Instead, in such circumstances, the Notes will be Written Down and the Write-Down Amount determined as provided above but without including for this purpose any CET 1 capital in respect of the write-down or conversion of such Loss Absorbing Instruments, to the extent it is not possible for them to be or they are not for any reason, written down and/or converted.

If a Write-Down pursuant to the Terms and Conditions occurs during any Distribution Period, unpaid distributions accrued on the Current Principal Amount to but excluding the Effective Date (as defined in the Terms and Conditions) are cancelled. In accordance with the Terms and Conditions, the Notes shall bear distributions on the adjusted Current Principal Amount from and including the Effective Date. A reduction of the Current Principal Amount of a Note pursuant to the provisions described above will not constitute a default of the Issuer for any purpose.

Holders may lose all or some of their investment as a result of a Write-Down. If the Issuer is liquidated or becomes insolvent prior to the Notes being written up in full (if at all) pursuant to the Terms and Conditions, Holders' claims for principal (and distributions, if any) will be based on the reduced Current Principal Amount of the Notes.

The market price of the Notes is expected to be affected by fluctuations in the Common Equity Tier 1 capital ratio of the BAWAG Regulatory Group. Any indication that the Group CET 1 Capital Ratio is approaching the level that would trigger a Trigger Event may have an adverse effect on the market price of the Notes.

2.2.10 Upon the occurrence of a Trigger Event, there may be a Write-Down of the Notes even if other capital instruments of the Issuer are not written down or converted into Common Equity Tier 1 instruments.

The terms and conditions of other instruments already in issue or to be issued after the date hereof by the Issuer may vary and accordingly such instruments may not be written down at the same time as the Notes if the Notes are Written Down, or to the same extent, as the Notes, or at all. Alternatively, such other instruments may provide that they shall convert into CET 1 instruments, or become entitled to reinstatement of the principal amount of the Notes or other compensation in the event of a potential recovery of the Issuer and/or any other entity of the BAWAG Regulatory Group or a subsequent change in the

financial condition thereof. Such capital instruments may also provide for such reinstatement or compensation in different circumstances from those in which, or to a different extent to which, the principal amount of the Notes may be reinstated.

2.2.11 The Issuer is under no obligation to reinstate any written down amounts.

The Issuer is under no obligation to reinstate any principal amounts which have been subject to any Write-Down up to a maximum of the Original Principal Amount, even if certain conditions (as further described in the Terms and Conditions) that would permit the Issuer to do so, were met. Any Write-Up of the Notes is at the sole discretion of the Issuer.

Moreover, the Issuer will, *inter alia*, only have the option to Write-Up the Current Principal Amount of the Notes subject to certain limitations set forth in the Terms and Conditions and if the Maximum Distributable Amount (if any) would not be exceeded when operating a Write-Up (see also "2.2.13 Some aspects of the manner how CRD IV/CRR is applied and/or will be amended in the future are uncertain.").

No assurance can be given that these conditions will ever be met or that the Issuer will ever write up (fully or partially) the principal amount (i.e. the then Current Principal Amount) of the Notes following a Write-Down.

Furthermore, any Write-Up must be undertaken on a *pro rata* basis with all Notes and among any Loss Absorbing Written Down Instruments (as defined in the Terms and Conditions).

2.2.12 The calculation of the CET 1 capital ratios will be affected by a number of factors, many of which may be outside the Issuer's control.

The calculation of the CET 1 capital ratio of the BAWAG Regulatory Group could be affected by a wide range of factors, including, among other things, factors affecting the level of earnings or dividend payments, the mix of its businesses, its ability to effectively manage the risk-weighted assets in its ongoing businesses, losses in the context of its banking activities or other businesses, changes in BAWAG Regulatory Group's structure or organisation. The calculation of the ratios also may be affected by changes in the applicable laws and regulations or applicable accounting rules and the manner in which accounting policies are applied, including the manner in which permitted discretion under the applicable accounting rules is exercised.

Holders are, due to the Notes being subject to Write-Down in case of the occurrence of a Trigger Event, directly exposed to any changes of the Group CET 1 capital ratio and will, unless and until the Notes are written-up, lose all or part of their investment in case of a redemption of the Notes or in the liquidation or insolvency of the Issuer.

Due to the uncertainty regarding whether a Trigger Event will have occurred, it will be difficult to predict when, if at all, the Current Principal Amount of the Notes may need to be written down. Accordingly, the trading behaviour of the Notes may not necessarily follow the trading behaviour of other types of subordinated instruments. Any indication that the CET 1 capital ratio of the BAWAG Regulatory Group is approaching the level that would trigger a Trigger Event may have an adverse effect on the market price and liquidity of the Notes. Under such circumstances, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to more conventional investments.

2.2.13 Some aspects of the manner how CRD IV/CRR is applied and/or will be amended in the future are uncertain.

Many of the provisions of the Terms and Conditions of the Notes depend on the final interpretation or even implementation of CRD IV/CRR (including any regulations promulgated thereunder).

CRD IV/CRR is a complex set of rules and regulations that impose a series of new requirements, some of which are still subject to transitional provisions and others are likely to be amended in the near future. Although the CRR is directly applicable in each EU Member State, the CRR provides for important interpretational issues to be further specified through binding technical standards and/or delegated legal acts and through guidelines and leaves certain other matters to the discretion of the Competent Authority.

In addition, the BAWAG Regulatory Group is subject to direct supervision of the ECB. The manner in which many of the concepts and requirements under CRD IV/CRR are applied to the BAWAG Regulatory Group remains somehow uncertain.

Furthermore, the interplay between the SREP requirements and the Maximum Distributable Amount and the determination of the Maximum Distributable Amount are complex. The Maximum Distributable Amount imposes a cap on the Issuer's ability to make discretionary payments including distribution payments on the Notes (see also "2.2.7 The Issuer may be required to cancel payments of distributions on the Notes for regulatory reasons."), on the Issuer's ability to reinstate the Current Principal Amount of the Notes following a Write-Down and on its ability to redeem or repurchase Notes. There are a number of factors for such complexity:

- It applies when certain capital buffers are not maintained (see also "2.1.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group." and "2.2.7 The Issuer

may be required to cancel payments of distributions on the Notes for regulatory reasons." A 'capital buffer' is an amount of capital that a credit institution is required to maintain beyond the minimum amount required by applicable regulations. If the institution fails to meet the capital buffer, it becomes subject to restrictions on payments and distributions on Tier 1 instruments (including its ability to make payments on and to redeem and repurchase Additional Tier 1 instruments such as the Notes), and on the payment of certain bonuses to employees. There are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained when profits are robust), and others which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk.

- Certain capital buffers (such as the capital conservation buffer and the systemic risk buffer) (see also "2.1.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group." and "2.2.7 The Issuer may be required to cancel payments of distributions on the Notes for regulatory reasons.") apply since 1 January 2016 and are gradually phased in until 2019 (subject to certain discretion of the competent authorities). Certain buffer rates depend and will depend on the macro-economic situation (in case of the (institution-specific) countercyclical buffer: the credit cycle and risks due to excess credit growth in an EU Member State, taking into account specificities of the national economy), the existence of systemic risks (in case of the systemic risk buffer) or because of the assessment of a credit institution/its group as a global systemically important bank ("**G-SIB**") or other systemically important institution ("**O-SII**") (in case of the G-SIB buffer and the O-SII buffer). As a result, it is difficult to predict when the Maximum Distributable Amount will apply to the Notes, and to what extent.
- The Issuer will have the discretion to determine how to allocate the Maximum Distributable Amount among the different types of payments contemplated in Article 141(2) CRD IV. Moreover, payments made earlier in the relevant period will reduce the remaining Maximum Distributable Amount available for payments later in the relevant period, and the Issuer will have no obligation to preserve any portion of the Maximum Distributable Amount for payments scheduled to be made later in a given period. Even if the Issuer attempts to do so, there can be no assurance that it will be successful, because the Maximum Distributable Amount will depend on the amount of profits earned during the course of the relevant period, which will be difficult to predict.

These issues and other possible issues of interpretation make it difficult to determine how the Maximum Distributable Amount will apply as a practical matter to limit distribution payments on the Notes, the reinstatement of the Current Principal Amount of the Notes following a Write-Down and the ability of the Issuer to redeem and repurchase Notes (see also "2.1.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group.").

This uncertainty and the resulting complexity may adversely impact the trading price and the liquidity of the Notes.

Furthermore, the European Commission's EU banking reform package of 23 November 2016 foresees a requirement for MREL to be taken into account in the calculation of the Maximum Distributable Amount (in addition to Pillar 1, the Pillar 2 capital requirements and the combined buffer requirement), subject to a six-month grace period in case of inability to issue eligible debt, during which restrictions relating to Maximum Distributable Amounts would not be triggered, but competent authorities would be able to take other appropriate measures. The introduction of such additional capital requirements could impact the BAWAG Regulatory Group's ability to meet the combined buffer requirement, which, in turn, might impact its ability to make payments on the Notes which could affect the market price of the Notes (see also "2.1.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group.", "2.1.2.5 The Issuer, as a financial holding company which is currently indirectly subject to consolidated supervision, may become subject to direct and more stringent supervision in the future." and "2.2.7 The Issuer may be required to cancel payments of distributions on the Notes for regulatory reasons.").

2.2.14 Future legislative reforms may lead to additional restrictions with regard to payments of distributions on the Notes.

Financial holding companies and banking groups, such as the Issuer and BAWAG Regulatory Group, have been, and are expected to be in the future, subject to extensive regulation and it is possible that regulatory reforms may affect the treatment of the Notes.

On 23 November 2016, following a routine review of the CRD IV/CRR package and other major legal acts in the area of banking regulation and supervision, the European Commission published a comprehensive package of reforms to further strengthen the resilience of European Union banks (see also "2.1.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group.", "2.1.2.5 The Issuer, as a financial holding company which is currently indirectly subject to consolidated supervision, may become subject to direct and more stringent supervision in the future." and "2.2.13 Some aspects of the manner how CRD IV/CRR is applied and/or will be amended in the future are uncertain."). If implemented, the proposals will amend, among others, CRD IV/CRR, in order to incorporate various remaining elements of the regulatory framework agreed within the BCBS and the FSB to refine and supplement the Basel III capital adequacy framework. This includes more risk-sensitive capital requirements, in particular in the area of market risk,

counterparty credit risk, and for exposures to central counterparties, methodologies that reflect more accurately the actual risks to which banks may be exposed, a binding leverage ratio, a binding net stable funding ratio, tighter regulation of large exposures, and a requirement for global systemically important banks to hold certain minimum levels of capital and other instruments which are capable of bearing losses in resolution (the so-called 'Total Loss-Absorbing Capacity' – TLAC). Other proposed measures are aimed at improving banks' lending capacity to support the European Union economy and further facilitate the role of banks in achieving deeper and more liquid European Union capital markets. It is expected that most of the proposed amendments will start being applied at the end of 2020 at the earliest, save for the TLAC requirements, which are expected to apply from January 2019. While BAWAG Regulatory Group does not qualify as a global systemically important banking group subject to TLAC requirements, this may also impact the MREL requirements applicable to BAWAG Regulatory Group in the future. Furthermore, the European Commission's package of reforms of 23 November 2016 also proposes changes to the regime applicable when breaching capital requirements as referred to in the risk factor "2.2.6 The Issuer may, at its full discretion, cancel payments of distributions on the Notes. The cancellation of distribution payments will be definitive and non-cumulative." above. It is proposed, *inter alia*, to amend the provisions of the CRD IV on the combined buffer requirement and the calculation of the Maximum Distributable Amount. Under the proposed regime, a credit institution, and, by extension, banking groups that are subject to consolidated supervision, will be considered as failing to meet the combined buffer requirement where they do not have sufficient own funds and eligible liabilities in an amount and of the quality needed to meet at the same time (a) their minimum capital requirements under the CRR, (b) any additional capital requirements, such as the Pillar 2 requirement imposed by the ECB on the basis of the annual SREP, (c) any binding leverage requirements, (d) the harmonised minimum TLAC requirement as proposed by the European Commission, including any TLAC leverage ratio (to the extent applicable), (e) the institution-specific minimum requirement for own funds and eligible liabilities set by the SRB, and (f) the sum of the capital buffers applicable to the relevant credit institution or group. For the current situation see under "2.2.6 The Issuer may, at its full discretion, cancel payments of distributions on the Notes. The cancellation of distribution payments will be definitive and non-cumulative." above.

In addition, in December 2017, the BCBS published changes ("**December 2017 Proposals**") to the standardised approaches for credit, operational and market risk, as well as on the level of capital floors. This package of reforms, intended to finalise the Basel III regulatory capital framework, would reduce the ability of banks to apply internal models for the calculation of regulatory capital requirements, while making the standardised approaches more risk-sensitive and granular. As part of the December 2017 Proposals, the BCBS proposes a floor on the amount of regulatory capital benefits that banks could achieve by using internal models. The level of that proposed output floor has been set at 72.5% of the total risk-weighted assets calculated using only the standardised approaches. In addition, the BCBS proposes the introduction of a leverage ratio buffer for G-SIBs to be met with Tier 1 capital and set at 50% of the risk-weighted higher loss-absorbency requirements for such G-SIBs. The BCBS proposes that the G-SIB leverage ratio buffer takes the form of a capital buffer akin to the capital buffers in the risk-weighted capital framework with capital distribution constraints imposed on a G-SIB that does not meet its leverage ratio buffer requirement. The BCBS proposes an implementation date of this package for 1 January 2022 (including the G-SIB leverage ratio buffer) with a phase-in period of five years until 1 January 2027 for the output floor.

If adopted and once implemented, these proposals may impose further restrictions on the Issuer's ability to make distributions on the Notes.

2.2.15 The Notes are perpetual and may not be redeemed at the option of the Holders, any rights of the Issuer to redeem or repurchase Notes are subject to the prior permission of the Competent Authority, and redemption may occur at a time when the redemption proceeds are less than the market price of the Notes.

The Notes are perpetual and have no scheduled maturity date. The Issuer is under no obligation to redeem the Notes at any time before its liquidation or insolvency.

The Issuer may, at its sole discretion, redeem the Notes at any time either for tax or regulatory reasons at the Redemption Amount plus accrued distributions, if any. In addition, the Issuer may at its sole discretion redeem the Notes, but not before 14 May 2025, on specified Call Redemption Dates at the applicable Redemption Amount plus accrued distributions, if any. Such optional redemption features are likely to limit the market price of the Notes, as during any period when the Issuer may decide to redeem the Notes, the market price of the Notes generally will not rise substantially above the price at which they can be redeemed (see also "2.2.9 The Issuer may be required to reduce the initial principal amount of the Notes to absorb losses, which would reduce any redemption amount and any distribution payable on the Notes while the Notes are written down.").

Any such redemption and any repurchase of the Notes (including any repurchase for market making purposes) is subject to the prior permission of the Competent Authority pursuant to Article 4(1)(40) CRR which is responsible to supervise the BAWAG Regulatory Group and compliance with regulatory capital rules applicable from time to time to the Issuer. Under the CRR, the Competent Authority may only permit institutions or other entities within the scope of the own funds requirements to redeem Additional Tier 1 instruments such as the Notes if certain conditions prescribed by the CRR are complied with. These conditions, as well as a number of other technical rules and standards relating to regulatory capital requirements, should be taken into account by the Competent Authority in its assessment of whether or not to permit any redemption or repurchase. It is uncertain how the Competent Authority will apply these criteria in practice and such rules and standards may change during the term of the Notes. It is therefore difficult to predict whether, and if so, on what terms, the Competent Authority will grant its prior permission for any redemption or repurchase of the Notes.

The Issuer shall not give a notice of redemption after a Write-Down Notice has been given in respect of a relevant Trigger Event until the Effective Date of the Write-Down. In addition, the Issuer will only redeem the Notes on the date specified in a notice of redemption if (i) the conditions for a redemption or repurchase are fulfilled on the date specified in the notice and (ii) no Trigger Event has occurred after the notice of redemption but before the date of redemption specified in the notice.

Furthermore, even if the Issuer would be granted the prior permission of the Competent Authority, any decision by the Issuer as to whether it will redeem the Notes will be made at the absolute discretion of the Issuer, and the Issuer may have regard to external factors such as the economic and market impact of exercising a redemption right, regulatory capital requirements and prevailing market conditions. The Issuer disclaims, and investors should therefore not expect, that the Issuer will exercise any redemption right in relation to the Notes. Holders of the Notes should therefore be aware that they may be required to bear the financial risks of an investment in the Notes perpetually.

If not for tax or regulatory reasons, the Issuer may exercise its right to redeem the Notes at its option only if the Current Principal Amount of each Note is equal to its Original Principal Amount.

The Holders of the Notes have no rights to call for redemption of their Notes and should not invest in the Notes in the expectation that any redemption right will be exercised by the Issuer. Excluding the Holders' right to demand for redemption of the Notes is mandatory due to the Applicable Supervisory Regulations. Thus, without redemption by Holders being excluded, the Issuer would not be able to issue the Notes at all. Investors should therefore carefully consider whether they think that a right of redemption only for the Issuer would be to their detriment, and should, if they think that this is the case, not invest in the Notes.

Even if the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market price of the Notes, which may result in a crystallisation of a loss for the Holders, in particular if the Current Principal Amount is less than the Original Principal Amount.

2.2.16 In the event that any Notes are redeemed, a Holder of such Notes may be exposed to risks, including the risk that his investment will have a lower than expected yield (risk of redemption).

According to the Terms and Conditions, the Issuer has the right to call the Notes in certain circumstances. If the Issuer redeems the Notes, a Holder of such Notes is exposed to the risk that, due to such redemption, its investment will have a lower than expected yield. The Issuer might exercise its call right if the yield on comparable notes in the capital markets falls, which means that the Holder may only be able to reinvest the redemption proceeds in notes with a lower yield or with a similar yield of a higher risk, in particular if the Current Principal Amount is less than the Original Principal Amount.

2.2.17 There are no events of default under the Notes.

The Terms and Conditions of the Notes do not provide for events of default allowing acceleration of the Notes if certain events occur. Accordingly, if the Issuer fails to meet any obligations due and payable under the Notes (although in any case, payments of distributions are at the sole discretion of the Issuer) investors will not have a right of acceleration of the Notes. Upon a payment default relating to any obligations under the Notes, the sole remedy available to Holders for recovery of amounts owing in respect of any such payment will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the opening of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

2.2.18 The Issuer's interests may not be aligned with those of investors in the Notes.

The Group CET 1 Capital Ratio, the Distributable Items and the Maximum Distributable Amount will depend in part on decisions made by the Issuer and/or other entities of the BAWAG Group relating to their businesses and operations, as well as the management of their capital position. The Issuer and/or other entities of the BAWAG Group will have no obligation to consider the interests of Holders in connection with their strategic decisions, including in respect of capital management and the relationship among the various entities of the BAWAG Group and BAWAG Group's structure.

The Issuer may decide not to raise capital at a time when it is feasible to do so, even if that would result in the occurrence of a Trigger Event. Moreover, in order to avoid the use of public resources, the Competent Authority may decide that the Issuer should allow a Trigger Event to occur at a time when it is feasible to avoid it.

Holders will not have any claim against the Issuer and/or other entities of BAWAG Group relating to decisions that affect the capital position of the Issuer and/or the BAWAG Group, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause Holders to lose all or part of their investment in the Notes.

2.2.19 The Notes may be written down (without prospect of a potential Write-Up in accordance with the Terms and Conditions of the Notes) or converted into equity, and the terms of the Notes may be varied to the detriment of the Holders, by the competent resolution authority.

In addition to being subject to a possible Write-Down upon the occurrence of a Trigger Event in accordance with the Terms and Conditions of the Notes (see also "2.2.10 Upon the occurrence of a Trigger Event, there may be a Write-Down of the Notes even if other capital instruments of the Issuer are not written down or converted into Common Equity Tier 1 instruments."), the Notes may also be subject to a permanent write-down or conversion into ordinary shares or other instruments of ownership (in whole or in part) and/or to other resolution measures, in particular in circumstances where the competent authorities have determined that BAWAG Regulatory Group as a whole or in part has reached the point of non-viability and the competent resolution authority FMA has taken the decision to apply these measures to the Issuer.

The resolution measures are based on the framework for the recovery and resolution of credit institutions and investment firms of the BRRD which was transposed into Austrian law by the BaSAG (see also "2.1.2.2 European and Austrian legislation regarding the resolution of banks, in particular the powers of resolution authorities to ensure resolvability and to force shareholders and creditors to participate in a situation of crisis, could, if such steps were taken to ensure that BAWAG Group or critical functions thereof continue(s) as a going concern, significantly affect BAWAG Group's business operations."). For a banking group supervised within the framework of the SSM, such as BAWAG Regulatory Group, the SRM Regulation provides for a coherent application of the resolution rules across the eurozone under responsibility of the SRB. Within the SRM, the SRB is responsible for adopting resolution decisions in close cooperation with the ECB, the European Commission, the Council of the EU and the relevant national resolution authorities in the event that a significant credit institution or banking group directly supervised by the ECB, such as the BAWAG Regulatory Group, is failing or likely to fail as a whole or in part and where certain other conditions are met. The Austrian resolution authority FMA would implement such a resolution decision adopted by the SRB in accordance with the powers conferred on it under the BaSAG.

Due to their qualification as AT 1 instruments, the Notes are 'relevant capital instruments' as defined in Article 3(1) point (51) SRM Regulation and § 2 no. 74 BaSAG which are intended to be recognised for the purposes of meeting own funds requirements of BAWAG Regulatory Group on a consolidated basis. The Notes are therefore, in particular, subject to the 'write-down and conversion of capital instruments' ("**WDCCI**") tool as set out in Article 21 SRM Regulation and § 70 BaSAG. If the ECB or the SRB determines that BAWAG Regulatory Group is failing or likely to fail as a whole or in part and where certain other conditions are met (as set forth in the SRM Regulation, the BaSAG and other applicable rules and regulations), FMA, upon a resolution scheme adopted by the SRB, has the power to write down, including to write down to zero, all claims for payment of the principal, interest or any other amount in respect of the Notes or to convert the Notes into ordinary shares or other instruments qualifying as CET 1 capital. The SRB and FMA will have to exercise the WDCCI tool in a way that results in (a) CET 1 instruments (such as ordinary shares of the Issuer) being reduced first in proportion to the relevant losses, (b) subsequently, the outstanding amount of Additional Tier 1 instruments, including the Notes, being written down on a permanent basis or converted into CET 1 instruments in order to absorb any remaining losses or to recapitalise the relevant institution to the extent necessary after step (a), and finally (c) the outstanding amount of the Issuer's T2 instruments as well as the Issuer's other "bail-inable" liabilities (unless exempted by the SRM Regulation or the BaSAG) being written down on a permanent basis or converted into CET 1 instruments in accordance with their order of priority and to the extent this is necessary after steps (a) and (b). In addition to the WDCCI tool, the SRB and FMA may apply any other resolution measure including (but not limited to) a transfer of the Notes to another entity, a variation of the Terms and Conditions of the Notes (including, but not limited to, the variation of maturity of the Notes) or a cancellation of the Notes. The WDCCI tool and each of these other resolution measures are hereinafter referred to as a "**Resolution Measure**". Generally, the SRB and FMA may apply Resolution Measures individually or in any combination. Furthermore, potential investors should be aware that, according to the BRRD, the SRM Regulation and the BaSAG, public financial support should only be granted as a last resort after having assessed and exploited, to the maximum extent practicable, the application of Resolution Measures, including the WDCCI tool, to BAWAG Regulatory Group.

In all these cases, the Holders can lose their entire or a substantial part of their investments. Consequently, any amounts so written down in respect of the Notes would be irrevocably lost and the Holders would cease to have any claims thereunder, and any conversion into CET 1 instruments of the Issuer (or a third party such as a bridge institution) with generally higher risks would be permanent, regardless whether or not BAWAG Regulatory Group's financial position is restored. Holders would have no claim against the Issuer in such cases and there would be no obligation of the Issuer to make any further payments under the Notes.

Potential investors should therefore consider the risk that they may lose all of their investment, including the nominal amount plus any accrued interest in particular if the SRB and FMA impose a write-down or conversion of the Notes into CET 1 instruments. In addition, potential investors should note that the provisions of the Terms and Conditions of the Notes relating to a Write-Up will not apply if the Notes have been subject to a Resolution Measure (see also "2.2.10 Upon the occurrence of a Trigger Event, there may be a Write-Down of the Notes even if other capital instruments of the Issuer are not written down or converted into Common Equity Tier 1 instruments.").

2.2.20 The Notes may be subject to other resolution powers which may result in the non-payment of distributions and/or the principal of the Notes.

Provided that the Issuer meets the applicable conditions for resolution as a member of BAWAG Regulatory Group, the resolution authority has certain resolution powers which it may exercise either individually or in any combination together with or in preparation of applying a resolution instrument. Such resolution powers in particular include:

- the power to transfer to another entity rights, assets or liabilities of the Issuer (such as the Notes);
- the power to reduce, including to reduce to zero, the nominal value of or outstanding amount due in respect of eligible liabilities of the Issuer;
- the power to convert eligible liabilities of the Issuer into ordinary shares or other instruments of ownership of the Issuer, a relevant parent institution or a bridge institution to which assets, rights or liabilities of the Issuer are transferred;
- the power to cancel debt instruments issued by the Issuer (such as the Notes);
- the power to require the Issuer or a relevant parent institution to issue new shares or other instruments of ownership or other capital instruments, including preference shares and contingent convertible instruments; and/or
- the power to amend or alter the maturity of debt instruments (such as the Notes) and other eligible liabilities issued by the Issuer or the amount of interest payable under such debt instruments and other eligible liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The exercise of such resolution powers could have a negative impact on the Issuer and/or the Notes.

2.2.21 Credit ratings of Notes may not adequately reflect all risks of the investment in such Notes, credit rating agencies could assign unsolicited ratings, and ratings may be suspended, downgraded or withdrawn, all of which could have an adverse effect on the market price and trading price of the Notes.

A rating of Notes may not adequately reflect all risks of the investment in such Notes. Credit rating agencies could decide to assign credit ratings to the Notes on an unsolicited basis. Equally, ratings may be suspended, downgraded or withdrawn. Any such unsolicited rating, suspension, downgrading or withdrawal may have an adverse effect on the market price and trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

2.2.22 The Notes are governed by German law (with the provisions on status being governed by Austrian law), and changes in applicable laws, regulations or regulatory policies may have an adverse effect on the Issuer, the Notes and the Holders.

The Terms and Conditions of the Notes will be governed by German law, except that the provisions on status are governed by Austrian law. Holders should thus note that the governing law may not be the law of their own home jurisdiction and that the law applicable to the Notes may not provide them with similar protection as their own law. Furthermore, no assurance can be given as to the impact of any possible judicial decision or change to German (and, in relation to the provisions on status, Austrian) law, or administrative practice after the date of this Prospectus.

2.2.23 The statutory presentation period provided under German law will be reduced under the Terms and Conditions applicable to the Notes in which case Holders may have less time to assert claims under the Notes.

Pursuant to the Terms and Conditions of the Notes the regular presentation period of 30 years (as provided in § 801(1) sentence 1 of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*)) will be reduced. In case of partial or total non-payment of amounts due under the Notes the Holder will have to arrange for the presentation of the relevant Global Note to the Issuer. Due to the abbreviation of the presentation period the likelihood that the Holder will not receive the amounts due to him increases since the Holder will have less time to assert his claims under the Notes in comparison to holders of debt instruments the terms and conditions of which do not shorten the statutory presentation period at all or to a lesser degree than the Terms and Conditions of the Notes.

2.2.24 The Terms and Conditions may be amended by resolution of the Holders in which a Holder may be subject to the risk of being outvoted by a majority resolution of the Holders.

The Terms and Conditions may be amended by the Issuer with consent of the Holders by way of a majority resolution in a Holders meeting or by a vote not requiring a physical meeting (*Abstimmung ohne Versammlung*) as described in §§ 5 *et seq.* of the German Act on Debt Securities (*Gesetz über Schuldverschreibungen aus Gesamtemissionen – SchVG*), the Issuer may

subsequently amend the Terms and Conditions with the consent of the majority of Holders as described in the Terms and Conditions, which amendment will be binding on all Holders of the Notes, even on those who voted against the change.

Therefore, a Holder may be subject to the risk of being outvoted by a majority resolution of the Holders. As such majority resolution is binding on all Holders of the Notes, certain rights of such Holder against the Issuer under the Terms and Conditions may be amended or reduced or even cancelled, which may have significant negative effects on the market price of the Notes and the return from the Notes.

2.2.25 If a joint representative (*gemeinsamer Vertreter*) is appointed for the Notes, the Holders may be deprived of their individual right to pursue and enforce their rights under the terms and conditions against the Issuer.

In case of an appointment of a joint representative (*gemeinsamer Vertreter*) for all Holders by a majority resolution of the Holders meeting, it is possible that a Holder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions of the Notes against the Issuer, such right passing to the joint representative who is then exclusively responsible to claim and enforce the rights of all the Holders.

2.2.26 An Austrian court could appoint a trustee for the Notes to exercise the rights and represent the interests of Holders on their behalf in which case the ability of Holders to pursue their rights under the Notes individually may be limited.

Pursuant to the Austrian Notes Trustee Act (*KuratorenGesetz – KuratorenG*) and the Austrian Notes Trustee Supplementation Act (*KuratorenErgänzungsgesetz*), a trustee (*Kurator*) could be appointed by an Austrian court upon the request of any interested party (e.g., a Holder) or upon the initiative of a competent court, for the purposes of representing the common interests of the Holders in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against the Issuer, in connection with any amendments to the Terms and Conditions of the Notes or changes relating to the Issuer, or under other similar circumstances.

Even though the applicability of the Austrian Notes Trustee Act and the Austrian Notes Trustee Supplementation Act is excluded in the Terms and Conditions (to the extent such exclusion is permissible under Austrian law), it cannot be ruled out that an Austrian court would reject such exclusion of the applicability of the Austrian Notes Trustee Act and the Austrian Notes Trustee Supplementation Act and appoints a trustee, because the Issuer is an Austrian company. If a trustee is appointed, it will exercise the collective rights and represent the interests of the Holders and will be entitled to make statements on their behalf which shall be binding on all Holders. Where a trustee represents the interests of and exercises the rights of Holders, this may conflict with or otherwise adversely affect the interests of individual or all Holders. The role of an appointed trustee may also conflict with provisions of the Terms and Conditions related to majority resolutions of the Holders pursuant to the Terms and Conditions. On the other hand, investors should not rely on the protection afforded by the Austrian Notes Trustee Act, as its application has been excluded (to the extent such exclusion is permissible under Austrian law) in the Terms and Conditions and an Austrian court may give effect to such disapplication.

2.2.27 Risks associated with the reform of interest rate benchmarks.

The EURIBOR and other interest rates or other types of rates and indices such as the annual swap rate for swap transactions which are deemed "benchmarks" (each a "**Benchmark**" and together, the "**Benchmarks**"), to which the distributions on the Notes will, from and including the First Reset Date, be linked, have become the subject of regulatory scrutiny and recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented.

Recent international reforms of Benchmarks include the Benchmark Regulation which is fully applicable since 1 January 2018. According to the Benchmark Regulation, a Benchmark may only be used if its administrator obtains authorisation or is registered and in case of an administrator which is based in a non-EU jurisdiction, if the administrator's legal benchmark system is considered equivalent (Article 30 of the Benchmark Regulation), the administrator is recognised (Article 32 of the Benchmark Regulation) or the benchmarks is endorsed (Article 33 of the Benchmark Regulation) (subject to applicable transitional provisions). If this is not the case, the Notes could be impacted.

The Benchmark Regulation could have a material impact on the Notes in any of the following circumstances:

- the Benchmark for determining the relevant Reference Rate could not be used as such if its administrator does not obtain authorisation or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the 'equivalence' conditions, is not 'recognised' pending such a decision and is not 'endorsed' for such purpose. In such event, the Notes could be impacted; and
- the methodology or other terms of the benchmark could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level, and could lead to adjustments to the Reference Rate of the Notes, including Independent Adviser determination of the rate or level of such benchmark.

On each Reset Date the Reset Rate of Distributions payable under the Notes is calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of five years, which appears on the Reuters Screen Page ICESWAP2 under the heading "EURIBOR BASIS – EUR" and above the caption "11:00 AM FRANKFURT" as of 11.00 a.m. (Frankfurt time) on the relevant Reset Determination Date, and which is provided by ICE Benchmark Administration as the Administrator. As at the date of this Prospectus, the Administrator does not appear on the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the Benchmark Regulation. As far as the Issuer is aware, the transitional provisions in Art 51 of the Benchmark Regulation apply, such that ICE Benchmark Administration is not currently required to obtain authorisation or registration.

The annual swap rate for swap transactions denominated in Euro with a term of five years, which appears on the Reuters Screen Page ICESWAP2 under the heading "EURIBOR BASIS – EUR" is calculated with reference to the EURIBOR, which is provided by the EMMI. As at the date of this Prospectus, the EMMI does not appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 the Benchmark Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that the EMMI is not currently required to obtain authorisation or registration.

Under the Terms and Conditions, if the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the relevant Reset Determination Date, the Calculation Agent shall, subject to § 3(4)(c) of the Terms and Conditions, request the principal office of each reference bank to provide the Calculation Agent with its Mid-Market Swap Rate quotation. If three or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for the relevant Reset Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such rates eliminating the highest rate (or, in the event of equality, one of the highest) and the lowest rate (or, in the event of equality, one of the lowest), all as determined by the Calculation Agent. If only two quotations are provided, the Reference Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reference Rate will be the quotation provided. If no quotations are provided, the Reference Rate, subject to § 3(4)(c) of the Terms and Conditions, will be equal to the last available 5-year mid swap rate for euro swap transactions, expressed as an annual rate, on the Reuters screen ICESWAP2 page.

Notwithstanding the provisions described above, if the Issuer (in consultation with the Calculation Agent) determines that the Reference Rate has ceased to be published on the Screen Page as a result of the Reference Rate and/or the 6-month EURIBOR rate ceasing to be calculated or administered then the benchmark replacement provisions set forth in § 3(4)(c) of the Terms and Conditions will apply.

Uncertainty as to the continuation of the Reference Rate and/or the EURIBOR and the rate that would be applicable if the Reference Rate and/or the EURIBOR were discontinued may adversely affect the trading market and the value of the Notes. At this time, it is not possible to predict the future effect of these developments nor their impact on the value of the Notes.

In addition to the aforementioned reform, there are numerous other proposals, initiatives and investigations which may impact Benchmarks.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the UK Financial Conduct Authority announced that after 2021 it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives, could have a material adverse effect on the costs of refinancing a Benchmark or the costs and risks of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Although it is uncertain whether or to what extent any of the above-mentioned changes and/or any further changes in the administration or method of determining a Benchmark could have an effect on the value of any Notes or the distributions which will, as from and including the First Reset Date, be linked to the relevant Benchmark, investors should be aware that any changes to the relevant Benchmark may have a material adverse effect on the value of the Notes.

2.2.28 Holders are exposed to the risk of partial or total inability of the Issuer to make distribution and/or redemption payments under the Notes.

Holders are subject to the risk of a partial or total inability of the Issuer to make distribution and/or redemption payments that are, subject to the limitations described in the Terms and Conditions, scheduled to be made under the Notes. Any deterioration of the creditworthiness of the Issuer would increase the risk of loss. A materialisation of the credit risk may result in partial or total inability of the Issuer to make distribution and/or redemption payments.

2.3 Risks relating to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

2.3.1 Holders assume the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

A credit spread is the margin payable by the Issuer to the Holder of an instrument as a premium for the assumed credit risk. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the notes and obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation of the market, the general level of interest rates, overall economic developments, and the currency in which the relevant obligation is denominated, may also have a negative effect.

Holders are exposed to the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

2.3.2 The Holder may be exposed to the risk that due to future money depreciation (inflation), the real yield of an investment may be reduced.

Inflation risk describes the possibility that the market price of assets such as the Notes or income therefrom will decrease as higher (expected) inflation reduces the purchasing power of a currency. Higher (expected) inflation causes the rate of return to decrease in value. If the inflation rate exceeds the distribution paid on any Notes (if any) the yield on such Notes will become negative.

2.3.3 There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, a Holder may not be able to sell his Notes at fair market prices.

Application has been made to admit the Notes to trading on the regulated market of the Luxembourg Stock Exchange.

There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, a Holder might not be able to sell its Notes at any time at fair market prices or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. Generally, these types of Notes would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market price of Notes. The possibility to sell the Notes might additionally be restricted on country-specific grounds.

2.3.4 There is a risk that trading in the Notes will be suspended, interrupted or terminated, which may have an adverse effect on the price of such Notes.

The listing and admission to trading of the Notes may – depending on the rules applicable to the stock exchange – be suspended or interrupted by the stock exchange or a competent regulatory authority upon the occurrence of a number of reasons, including violation of price limits, breach of statutory provisions, occurrence of operational problems of the stock exchange or generally if deemed required in order to secure a functioning market or to safeguard the interests of Holders. Furthermore, trading in the Notes may be terminated, either upon decision of the stock exchange, a regulatory authority or upon application by the Issuer. Holders should note that the Issuer has no influence on trading suspension or interruptions (other than where trading in the Notes is terminated upon the Issuer's decision) and that in any event they must bear the risks connected therewith. In particular, Holders may not be able to sell their Notes where trading is suspended, interrupted or terminated, and the stock exchange quotations of such Notes may not adequately reflect the price of such Notes. Finally, even if trading in Notes is suspended, interrupted or terminated, Holders should note that such measures may neither be sufficient, adequate nor timely to prevent price disruptions or to safeguard the Holders' interests; for example, where trading in Notes is suspended after price-sensitive information relating to such Notes has been published, the price of such Notes may already have been adversely affected. All these risks would, if they materialise, have a material adverse effect on the Holders.

2.3.5 Holders are exposed to the risk of an unfavourable development of market prices of their Notes which materialises if the Holder sells the Notes.

The development of market prices of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of instrument. The Holder is therefore exposed to the risk of an unfavourable development of market prices of its Notes which materialises if the Holder sells the Notes. Holders should also be aware that Notes may be issued at a price higher than the market price at issue and/or the redemption amount. This will increase the impact that unfavourable market price developments may have on the Notes.

2.3.6 Exchange rate risks may occur, if a Holder's financial activities are denominated in a currency or currency unit other than the Euro. Furthermore, government and monetary

authorities may impose exchange controls that could adversely affect an applicable exchange rate.

The Issuer will pay principal and distributions on the Notes in Euro. This presents certain risks relating to currency conversions if a Holder's financial activities are denominated principally in a currency or currency unit ("**Holder's Currency**") other than Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Holder's Currency) and the risk that authorities with jurisdiction over the Holder's Currency may impose or modify exchange controls. An appreciation in the value of the Holder's Currency relative to the Euro would decrease: (i) the Holder's Currency-equivalent yield on the Notes; (ii) the Holder's Currency-equivalent value of the principal payable on the Notes; and (iii) the Holder's Currency-equivalent market price of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, Holders may receive less distribution or principal than expected, or no distributions or principal.

2.3.7 If a loan or credit is used to finance the acquisition of the Notes, the loan or credit may significantly increase the amount of a loss.

If a loan is used to finance the acquisition of the Notes by a Holder and the Issuer is subsequently unable to repay any or all of the principal and distributions otherwise payable under the Notes, or if the trading price diminishes significantly, the Holder may not only have to face a potential loss on its investment, but will also have to repay the loan and pay interest thereon. A loan may therefore significantly increase the amount of a potential loss. Holders should not assume that they will be able to repay the loan or pay interest thereon from the profits of a transaction. Instead, Holders should assess their financial situation prior to an investment, as to whether they are able to pay interest on the loan, repay the loan on demand, and that they may suffer losses instead of realising gains.

2.3.8 Incidental costs related in particular to the purchase and sale of the Notes may have a significant impact on the profit potential of the Notes.

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) may be incurred in addition to the purchase or sale price of the Notes. These incidental costs may significantly reduce or eliminate any profit from holding the Notes. Credit institutions may charge commissions which are either fixed minimum commissions or pro-rata commissions, depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Holders may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), investors must also take into account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Potential investors should note that the purchase price applicable to the Notes on a given day will often include a bid-ask spread so that the purchase price will be higher than the price at which Holders are able to sell any such Notes on that given day.

2.3.9 Holders have to rely on the functionality of the relevant clearing system.

The Notes are purchased and sold through different clearing systems, such as Euroclear or CBL. The Issuer does not assume any responsibility as to whether the Notes are actually transferred to the securities portfolio of the relevant investor. Holders have to rely on the functionality of the relevant clearing system.

2.3.10 The applicable tax regime may change to the disadvantage of the Holders; therefore, the tax impact of an investment in the Notes should be carefully considered.

Distribution payments on Notes, or profits realised by a Holder upon the sale or repayment of Notes, may be subject to taxation in the Holder's state of residence or in other jurisdictions in which the Holder is subject to tax. The tax consequences which generally apply to Holders may, however, differ from the tax impact on an individual Holder. Prospective investors, therefore, should contact their own tax advisors on the tax impact of an investment in the Notes.

Among other things, there may be no authority addressing whether a Holder would be entitled to a deduction for loss at the time of a Write-Down. An investor may, for example, be required to wait to take a deduction until it is certain that no Write-Up can occur, or until there is an actual or deemed sale, exchange or other taxable disposition of the Notes. It is also possible that, if an investor takes a deduction at the time of a Write-Down, it may be required to recognise a capital or income gain at the time of a future Write-Up. Furthermore, the applicable tax regime may change to the disadvantage of the Holder in the future.

2.3.11 Legal investment considerations may restrict certain investments, in particular as the Notes are subordinated and loss absorbing instruments.

The investment activities of certain Holders are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes represent legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Furthermore, the Terms and Conditions of the Notes may contain certain exclusions or restrictions of the Issuer's or other parties' (e.g., the Calculation Agent, the Paying Agent etc.) liability for negligent acts or omissions in connection with the Notes, which could result in the Holders not being able to claim (or only to claim partial) indemnification for damage that has been caused to them. Holders should therefore inform themselves about such exclusions or restrictions of liability and consider whether these are acceptable for them.

2.3.12 The Issuer is exposed to conflicts of interest which might adversely affect the Holders.

The Issuer may from time to time act in other capacities with regard to the Notes. This fact could generate conflicts of interest and may affect the market price of the Notes.

3 USE OF PROCEEDS

In connection with the offering of the Notes, the Issuer will receive gross proceeds of EUR 300,000,000. The Issuer intends to use the net proceeds from the sale of the Notes to strengthen BAWAG Regulatory Group's Tier 1 capital base.

4 TERMS AND CONDITIONS OF THE NOTES

§ 1 CURRENCY, DENOMINATION, FORM, CERTAIN DEFINITIONS

- (1) *Currency, Denomination.* This issue by BAWAG GROUP AG (the "**Issuer**") of EUR 300,000,000 Undated Fixed to Reset Rate Additional Tier 1 Notes of 2018 with a First Reset Date on 14 May 2025 (the "**Notes**") is being issued on 25 April 2018 (the "**Issue Date**") in Euro (the "**Specified Currency**") in the aggregate principal amount of EUR 300,000,000 (in words: three hundred million euro) in the denomination of EUR 200,000 (the "**Specified Denomination**" or the "**Original Principal Amount**") each.
- (2) *Form.* The Notes are being issued in bearer form.
- (3) *Temporary Global Note – Exchange for Permanent Global Note.*
 - (a) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without coupons. The Temporary Global Note will be exchangeable for Notes in the Specified Denomination represented by a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**") without coupons. The Global Notes shall each be signed by authorised representatives of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent. Definitive Notes and coupons will not be issued.
 - (b) The Temporary Global Note shall be exchangeable for the Permanent Global Note in the form and subject to the conditions provided in § 1(3)(a) above from a date (the "**Exchange Date**") not earlier than 40 calendar days after the date of issuance of the Temporary Global Note. Such exchange shall only be made to the extent that certifications have been delivered to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is (are) not (a) U.S. person(s) (other than certain financial institutions or certain persons holding Notes through such financial institutions) as required by U.S. tax law. Payment of distributions on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of distributions. Any such certification received on or after the 40th calendar day after the date of issuance of the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to § 1(3)(b). Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States (as defined in § 6(5)).
- (4) *Clearing System.* The Global Note(s) will be kept in custody by or on behalf of a Clearing System until all obligations of the Issuer under the Notes have been satisfied. "**Clearing System**" means each of Clearstream Banking, *société anonyme*, Luxembourg, 42 Avenue J.F. Kennedy, 1855 Luxembourg, Grand Duchy of Luxembourg ("**CBL**") and Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium ("**Euroclear**" and, together with CBL, the "**ICSDs**") and any successor in such capacity. The Notes shall be issued in Classical Global Note form and kept in custody by a common depositary on behalf of both ICSDs.
- (5) *Holder of Notes.* "**Holder**" means any holder of a proportionate co-ownership or other comparable right in the Global Note which may be transferred to a new Holder in accordance with the provisions of the Clearing System.
- (6) *Business Day.* "**Business Day**" means a calendar day (other than a Saturday or a Sunday) on which the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("**TARGET**") is open.

§ 2 STATUS

- (1) *Ranking.* The Notes constitute direct, unsecured and subordinated obligations of the Issuer and constitute AT 1 Instruments (as defined below).

In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:

- (a) junior to all present or future: (i) unsubordinated instruments or obligations of the Issuer; (ii)(x) any Tier 2 Instruments (as defined below); and (y) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to the unsubordinated obligations of the Issuer (other than instruments or obligations ranking or expressed to rank *pari passu* with or subordinated to the Notes);

- (b) *pari passu*: (i) among themselves; and (ii) with all other present or future (x) AT 1 Instruments (as defined below); and (y) instruments or obligations ranking or expressed to rank *pari passu* with the Notes; and
- (c) senior to all present or future: (i) ordinary shares of the Issuer and any other CET 1 Instruments (as defined below); and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank: (x) subordinated to the obligations of the Issuer under the Notes; or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

For the avoidance of doubt, Holders will neither participate in any reserves of the Issuer nor in liquidation profits (*Liquidationsgewinn*) within the meaning of § 8(3)(1) of the Austrian Corporate Income Tax Act 1988 (*Körperschaftsteuergesetz 1988*) in the event of the Issuer's liquidation.

The rights of the Holders of the Notes to payment of principal on the Notes are at any time limited to a claim for the prevailing Current Principal Amount (as defined in § 5(11)).

- (2) *Subordination of Claims (Rangrücktritt)*. The Holders will be entitled to payments, if any, under the Notes only once any negative equity (*negatives Eigenkapital*) within the meaning of § 225(1) of the Austrian Enterprise Code (*Unternehmensgesetzbuch – UGB*) has been removed (*beseitigt*) or if, in the event of the liquidation (*Liquidation*) of the Issuer, all other creditors (other than creditors the claims of which rank or are expressed to rank *pari passu* with or junior to the Notes) of the Issuer have been satisfied first.

No insolvency proceedings against the Issuer are required to be opened in relation to the obligations of the Issuer under the Notes. The claims of the Holders against the Issuer under the Notes are subordinated in accordance with § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung – IO*) and the Notes do not contribute to a determination that the liabilities of the Issuer exceed its assets; i.e., the obligations of the Issuer under the Notes, if any, will not contribute to the determination of over-indebtedness (*Überschuldung*) within the meaning of § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung – IO*).

- (3) *No Set-off, Netting or Security*. Claims of the Issuer are not permitted to be set-off or netted against payment obligations of the Issuer under the Notes. No collateral may be provided by the Issuer or any third person for the liabilities constituted by the Notes. The Notes are neither secured nor subject to a guarantee that enhances the seniority of the claims under the Notes. The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or liquidation.
- (4) *Certain Definitions*. In these Terms and Conditions:

"**AT 1 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Additional Tier 1 instruments pursuant to Article 52 CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

"**CET 1 Instruments**" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 CRR.

"**CRR**" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CRR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"**Tier 2 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions under the CRR.

§ 3 DISTRIBUTIONS

- (1) *Distribution Rates and Distribution Payment Dates*. The Notes shall bear distributions on the Current Principal Amount (as defined below) at the rate of 5.000 per cent. *per annum* (the "**First Rate of Distributions**") from and including 25 April 2018 (the "**Distribution Commencement Date**") to but excluding 14 May 2025 (the "**First Reset Date**") and thereafter at the relevant Reset Rate of Distributions (as determined in accordance with § 3(4)) from and including each Reset Date to but excluding the next following Reset Date. Distributions will be scheduled to be paid semi-annually in arrear on 14 May and 14 November in each year (each such date, a "**Distribution Payment Date**"), commencing on 14 November 2018 (long first coupon).

Distributions will fall due subject to the provisions set out in § 3(6) and § 4(4).

- (2) *Calculation of Amount of Distributions.* If the amount of distributions scheduled to be paid under the Notes is required to be calculated for any period of time: (i) such amount of distributions for any Distribution Period ending on or prior to the First Reset Date shall be calculated by the Calculation Agent by applying the First Rate of Distributions to the Current Principal Amount; and (ii) such amount of distributions for any Distribution Period commencing on or after the First Reset Date shall be calculated by the Calculation Agent by applying the applicable Reset Rate of Distributions to the Current Principal Amount, in each case multiplying such amount by the applicable Day Count Fraction (as defined below), and rounding the resultant figure to the nearest full cent with EUR 0.005 being rounded upwards.

If a Write-Down (as defined in § 5(8)) occurs during any Distribution Period as a result of which unpaid distributions accrued on the Current Principal Amount to but excluding the Effective Date (as defined in § 5(11)) are cancelled in accordance with § 3(6)(c), the Notes shall bear distributions on the adjusted Current Principal Amount from and including the Effective Date.

If a Write-Up (as defined in § 5(9)) occurs during any Distribution Period, the amount of distributions shall be calculated by the Calculation Agent on the basis of the adjusted Current Principal Amount from time to time so that the relevant amount of distributions is determined by reference to such Current Principal Amount as adjusted from time to time and as if such Distribution Period were comprised of two or (as applicable) more consecutive distribution periods, with distribution calculations based on the number of days for which each Current Principal Amount was applicable.

"Distribution Period" means the period from and including the Distribution Commencement Date to but excluding the first Distribution Payment Date and each successive period from and including a Distribution Payment Date to but excluding the next succeeding Distribution Payment Date.

- (3) *Day Count Fraction (Actual/Actual (ICMA)).* **"Day Count Fraction"** means, in respect of the calculation of an amount of distributions on any Note for any period of time (including the first such day to but excluding the last) (the **"Calculation Period"**):

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which the Calculation Period ends, the number of calendar days in such Calculation Period divided by the product of: (x) the number of calendar days in such Determination Period; and (y) the number of Determination Dates (as specified below) that would occur in one calendar year; or
- (b) if the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
- (i) the number of calendar days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of: (x) the number of calendar days in such Determination Period; and (y) the number of Determination Dates normally ending in any year; and
- (ii) the number of calendar days in such Calculation Period falling in the next Determination Period divided by the product of: (x) the number of calendar days in such Determination Period; and (y) the number of Determination Dates normally ending in any year.

Where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"Determination Date" means 14 May and 14 November in each year.

- (4) *Determination of the Reset Rate of Distributions.*

- (a) *Reset Rate of Distributions.* The rate of distributions for each Reset Period (each a **"Reset Rate of Distributions"**) shall be the sum of: (x) the Reference Rate (as defined below); and (y) the Margin (as defined below), *per annum*, such sum converted from an annual basis to a semi-annual basis in accordance with market convention, all as determined by the Calculation Agent (as specified in § 6(1)).

"Margin" means 4.415 per cent.

"Reference Rate" in respect of each Reset Period means the annual swap rate (expressed as a percentage) for swap transactions in the Specified Currency with a term of five years, which appears on the Screen Page (as defined below) as of 11.00 a.m. (Frankfurt time) on the relevant Reset Determination Date (as defined below).

If the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the relevant Reset Determination Date, the Calculation Agent shall, subject to § 3(4)(c), request the principal office of each Reference Bank (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate quotation (expressed as a percentage rate) at approximately 11.00 a.m. (Frankfurt time) on the relevant Reset Determination Date.

Where:

"Mid-Market Swap Rate" means the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating interest rate swap transaction in the Specified Currency with a term of five years and in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/360 day count basis, is based on the 6-month EURIBOR rate.

If three or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for the relevant Reset Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such rates eliminating the highest rate (or, in the event of equality, one of the highest) and the lowest rate (or, in the event of equality, one of the lowest), all as determined by the Calculation Agent.

If only two quotations are provided, the Reference Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reference Rate will be the quotation provided. If no quotations are provided, the Reference Rate, subject to § 3(4)(c), will be equal to the last available 5-year mid swap rate for euro swap transactions, expressed as an annual rate, on the Reuters screen ICESWAP2 page.

"Reference Banks" means five leading swap dealers in the interbank market as selected by the Issuer.

"Reset Determination Date" means the second Business Day (as defined in § 1(6)) prior to any Reset Date.

"Screen Page" means Reuters Screen Page ICESWAP2 under the heading "EURIBOR BASIS – EUR" and above the caption "11:00 AM FRANKFURT" or the successor page displayed by the same information provider or any other information provider nominated by the Issuer as the replacement information provider for the purposes of displaying the Reference Rate.

"Reset Date" means the First Reset Date and each 5th anniversary thereof for as long as the Notes remain outstanding.

"Reset Period" means the period from and including a Reset Date to but excluding the next following Reset Date.

- (b) *Notification of Reset Rate of Distributions.* The Calculation Agent will cause the Reset Rate of Distributions determined in accordance with § 3(4)(a) to be notified to the Issuer, any stock exchange on which the Notes are from time to time listed (if required by the rules of such stock exchange) and to the Holders in accordance with § 10 as soon as possible after its determination.
- (c) *Benchmark Replacement.* Notwithstanding the provisions above in this § 3, if the Issuer (in consultation with the Calculation Agent) determines that the Reference Rate has ceased to be published on the Screen Page as a result of the Reference Rate and/or the 6-month EURIBOR rate (the **"Mid-Swap Floating Leg Benchmark Rate"**) ceasing to be calculated or administered, then the following provisions shall apply:
- (i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser to determine in the Independent Adviser's reasonable discretion an alternative rate (the **"Alternative Benchmark Rate"**) and an alternative screen page or source (the **"Alternative Screen Page"**) no later than three Business Days prior to the Reset Determination Date relating to the next succeeding Reset Period (the **"IA Determination Cut-off Date"**) for purposes of determining the Reference Rate for all future Reset Periods (subject to the subsequent operation of this § 3(4)(c));
- (ii) the Alternative Benchmark Rate shall be such rate as the Independent Adviser determines in its reasonable discretion has replaced the Reference Rate in customary market usage for purposes of determining a 5-year mid-swap rate denominated in Euro, or, if the Independent Adviser determines in its reasonable discretion that there is no such rate, such other rate as the Independent Adviser determines in its reasonable discretion is most comparable to the Reference Rate, and the Alternative Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate;

- (iii) if the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine an Alternative Benchmark Rate and Alternative Screen Page prior to the IA Determination Cut-off Date in accordance with § 3(4)(c)(ii) above, then the Issuer (in consultation with the Calculation Agent and acting in good faith and a commercially reasonable manner) may determine which (if any) rate has replaced the Reference Rate in customary market usage for purposes of determining a 5-year mid-swap rate denominated in Euro, or, if it determines that there is no such rate, which (if any) rate is most comparable to the Reference Rate, and the Alternative Benchmark Rate shall be the rate so determined by the Issuer and the Alternative Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate; provided, however, that if this § 3(4)(c)(iii) applies and the Issuer is unable or unwilling to determine an Alternative Benchmark Rate and Alternative Screen Page prior to the Reset Determination Date relating to the next succeeding Reset Period in accordance with this § 3(4)(c)(iii), the Reference Rate applicable to such Reset Period shall be equal to the Reference Rate last determined in relation to the Notes in respect of a preceding Reset Period (which may be the First Rate of Distributions minus the Margin);
- (iv) if an Alternative Benchmark Rate and Alternative Relevant Screen Page is determined in accordance with the preceding provisions, such Alternative Benchmark Rate and Alternative Screen Page shall be the benchmark and the Screen Page in relation to the Notes for all future Reset Periods (subject to the subsequent operation of this § 3(4)(c));
- (v) if the Independent Adviser or the Issuer determines an Alternative Benchmark Rate in accordance with the above provisions, the Independent Adviser or the Issuer (as the case may be), may also, following consultation with the Calculation Agent, determine in its reasonable discretion any necessary changes to the Reference Rate, the Mid-Swap Floating Leg Benchmark Rate, the Day Count Fraction, the business day convention, the Business Days and/or the Reset Determination Date applicable to the Notes (including any necessary adjustment factor that is necessary to make the Reference Rate comparable to a 5-year mid-swap rate based on the 6-months interbank deposit rate), and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to the Alternative Benchmark Rate, which changes shall be deemed to apply to the Notes for all future Reset Periods (subject to the subsequent operation of this § 3(4)(c)); and
- (vi) the Issuer shall, promptly following the determination of any Alternative Benchmark Rate and Alternative Screen Page, give notice thereof and of any changes which are deemed to apply to the Notes pursuant to § 3(4)(c)(v) above in accordance with § 10 to the Holders.

For the purposes of this § 3(4)(c), "**Independent Adviser**" means an independent financial institution in the Euro-Zone of international repute or other independent financial adviser in the Euro-Zone experienced in the international capital markets, in each case appointed by the Issuer at its own expense.

- (d) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this § 3 by the Calculation Agent or, as the case may be, any Independent Adviser or the Issuer shall (in the absence of wilful default, bad faith, inequity or manifest error) be binding on the Issuer, the Paying Agents and the Holders.
- (5) *Default Distributions.* The Notes shall cease to bear distributions from the expiry of the calendar day preceding the due date for redemption (if the Notes are redeemed). If the Issuer fails to redeem the Notes when due, distributions shall continue to accrue on the Current Principal Amount of the Notes from and including the due date for redemption to but excluding the date of actual redemption of the Notes at the applicable rate of distributions determined pursuant to this § 3. This does not affect any additional rights that might be available to the Holders.
- (6) *Cancellation of Distributions.*
 - (a) The Issuer, at its full discretion, may at all times cancel, in whole or in part, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date for an unlimited period and on a non-cumulative basis. The Issuer may use such cancelled payments without restrictions to meet its obligations as they fall due. If the Issuer makes use of such right, it shall give notice to the Holders without undue delay and in any event no later than on the Distribution Payment Date.
 - (b) Without prejudice to such full discretion of the Issuer, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date shall be cancelled mandatorily and automatically, in whole or in part, if and to the extent:
 - (i) the amount of such distribution payment scheduled to be paid together with any Additional Amounts thereon and any payments of interest, dividends or distributions that are simultaneously planned or made or that have been made by the Issuer on other Tier 1 Instruments in the then current financial year of the Issuer would exceed the amount of the available Distributable Items, provided that, for such purpose, the available Distributable Items shall be increased by (x) an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including

payments of distributions together with any Additional Amounts thereon on the Notes) in the calculation of the profit (*Gewinn*) on which the available Distributable Items are based, and (y) any other amounts that may be included for the purposes of determining the amounts available for distributions on AT 1 Instruments under the Applicable Supervisory Regulations from time to time; or

- (ii) the Competent Authority orders the relevant distribution payment scheduled to be paid to be cancelled in whole or in part; or another prohibition on distributions is imposed by law or by the Competent Authority (including any prohibition on distributions as a result of the calculation of the maximum distributable amount within the meaning of Article 141(2) CRD IV (the "**Maximum Distributable Amount**") and as currently transposed into Austrian law by § 24(2) BWG).

If any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date is so mandatorily and automatically cancelled, the Issuer shall give notice to the Holders thereof without undue delay. Any failure to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose.

- (c) If a Write-Down (as defined in § 5(8)) occurs during any Distribution Period, unpaid distributions accrued on the Current Principal Amount to but excluding the Effective Date (as defined in § 5(8)) will be cancelled mandatorily and automatically in full.
- (d) Any distribution payment so cancelled will be non-cumulative and will be cancelled permanently and no payments will be made nor will any Holder be entitled to receive any payment or indemnity in respect thereof. Any such cancellation of distributions will not constitute an event of default of the Issuer and will not impose any restrictions on the Issuer.

(7) *Certain Definitions.* In these Terms and Conditions:

"BAWAG Regulatory Group" means, from time to time, any banking group: (i) to which the Issuer belongs; and (ii) to which the own funds requirements pursuant to Parts Two and Three of the CRR on a consolidated basis due to prudential consolidation in accordance with Part One, Title Two, Chapter Two of the CRR apply.

"BWG" means the Austrian Banking Act (*Bankwesengesetz – BWG*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant paragraphs of the BWG include references to any applicable provisions of law amending or replacing such provisions from time to time.

"Competent Authority" means the competent authority pursuant to Article 4(1)(40) CRR and/or Article (9)(1) SSM Regulation, in each case, which is responsible to supervise the BAWAG Regulatory Group and/or (as the case may be) the Issuer.

"CRD IV" means the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (*Capital Requirements Directive IV*), as implemented in Austria and as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CRD IV include references to any applicable provisions of law amending or replacing such Articles from time to time.

"Distributable Items" means in respect of any payment of distributions on the Notes the distributable items as defined in Article 4(1)(128) CRR in respect of each financial year of the Issuer, as at the end of the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date for which such Relevant Financial Statements are available, all as determined in accordance with the accounting principles applied by the Issuer and as derived from the most recent Relevant Financial Statements.

"Relevant Financial Statements" means: (i) the audited (*geprüften*) and adopted (*festgestellten*) unconsolidated annual financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date; or (ii) if such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant Distribution Payment Date, unaudited unconsolidated pro forma financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements.

"SSM Regulation" means the Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (Single Supervisory Mechanism Regulation), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the SSM Regulation include references to any applicable provisions of law amending or replacing such Articles from time to time.

"Tier 1 Instruments" means: (i) the CET 1 Instruments; (ii) the AT 1 Instruments; and (iii) any other instruments or obligations of the Issuer ranking *pari passu* with respect to payment of interest, dividends or distributions with CET 1 Instruments or AT 1 Instruments.

§ 4 PAYMENTS

- (1) (a) *Payment of Principal.* Payment of principal on the Notes shall be made, subject to § 4(2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System.
- (b) *Payment of Distributions.* Payment of distributions on the Notes shall be made, subject to § 3(6) above and § 4(2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System and in case of payment of distributions on Notes represented by a Temporary Global Note, upon due certification as provided for in § 1(3)(b).
- (2) *Manner of Payment.* Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in the Specified Currency.
- (3) *Discharge.* The Issuer shall be discharged by payment to, or to the order of, the Clearing System.
- (4) *Payment Business Day.* If the due date for any payment of any amount in respect of the Notes would otherwise fall on a calendar day which is not a Payment Business Day (as defined below), then the due date for such payment will be postponed and the Holders will not be entitled to such payment until the next calendar day which is a Payment Business Day. In such case the Distribution Period will not be adjusted and the Holders will not be entitled to any compensation for any such delay.

"Payment Business Day" means a calendar day (other than a Saturday or a Sunday): (i) on which the Clearing System is open; and (ii) which is a Business Day (as defined in § 1(6)).

- (5) *References to Principal and Distributions.* References in these Terms and Conditions to "principal" in respect of the Notes shall be deemed to include, as applicable: the Current Principal Amount (as defined in § 5(11)); the Redemption Amount of the Notes (as defined in § 5(7)(a)); and any premium and any other amounts (other than distributions) which may be payable under or in respect of the Notes. References in these Terms and Conditions to "distributions" in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts (as defined in § 7(1)) which may be payable under § 7(1).

§ 5 REDEMPTION AND WRITE-DOWN

- (1) *No Scheduled Maturity.* The Notes are perpetual and have no scheduled maturity date.
- (2) *No Redemption at the Option of a Holder.* The Holders do not have a right to demand the redemption of the Notes.
- (3) *Redemption at the Option of the Issuer.* The Issuer may, upon giving notice in accordance with § 5(7)(a), redeem the Notes in whole, but not in part, at the Redemption Amount on any Call Redemption Date. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to § 3(6). Any such redemption pursuant to this § 5(3) shall not be possible before five years from the date of issuance and shall only be possible provided that the conditions to redemption and repurchase laid down in § 5(6) are met.

"Call Redemption Date" means the First Reset Date and each Distribution Payment Date thereafter.

The Issuer may exercise its redemption right pursuant to § 5(3) only if the Current Principal Amount of each Note is equal to its Original Principal Amount.

- (4) *Redemption for Reasons of Taxation.* If a Tax Event occurs, the Issuer may, upon giving notice in accordance with § 5(7)(a), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of redemption specified in the notice, provided that the conditions to redemption and repurchase laid down in § 5(6) are met. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to § 3(6).

Where:

A "Gross-up Event" occurs if there is a change in the applicable tax treatment of the Notes based on a decision of the local tax authority having competence over the Issuer as a result of which the Issuer has paid, or will or would on the next Distribution Payment Date be required to pay, any Additional Amounts (as defined in § 7(1)).

A "**Tax Deductibility Event**" occurs if there is a change in the applicable tax treatment of the Notes as a result of which the Issuer, in computing its taxation liabilities in Austria, would not be entitled to claim a deduction in respect of distributions paid on the Notes, or such deductibility is materially reduced.

"**Tax Event**" means a change in, or amendment to, or clarification of, the applicable tax treatment of the Notes, including without limitation, a Tax Deductibility Event or a Gross-up Event, which change or amendment or clarification: (x) subject to (y), becomes effective on or after the date of issuance of the Notes; or (y) in the case of a change, if such change is enacted on or after the date of issuance of the Notes.

- (5) *Redemption for Regulatory Reasons.* If a Regulatory Event occurs, the Issuer may, upon giving notice in accordance with § 5(7)(a), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of redemption specified in the notice, provided that the conditions to redemption and repurchase laid down in § 5(6) are met. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to § 3(6).

A "**Regulatory Event**" occurs if there is a change in the regulatory classification of the Notes under the Applicable Supervisory Regulations that would be likely to result in their exclusion in full or in part from own funds (other than as a consequence of a Write-Down) or reclassification as a lower quality form of own funds on a consolidated basis of the BAWAG Regulatory Group.

- (6) *Conditions to Redemption and Repurchase.* Any redemption pursuant to this § 5 and any repurchase pursuant to § 9(2) is subject to:

(a) the Issuer having obtained the prior permission of the Competent Authority for the redemption or any repurchase pursuant to § 9(2) in accordance with Article 78 CRR, if applicable to the Issuer at that point in time, whereas such permission may, *inter alia*, require that:

(i) either the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or

(ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds of the BAWAG Regulatory Group would, following such redemption or repurchase, exceed the minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and

(b) in the case of any redemption prior to the fifth anniversary of the date of issuance of the Notes:

(i) due to a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the date of issuance of the Notes; or

(ii) due to a Regulatory Event, the Competent Authority considers such change to be sufficiently certain and the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the date of issuance of the Notes.

Notwithstanding the above conditions, if, at the time of any redemption or purchase, the prevailing Applicable Supervisory Regulations permit the redemption or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this § 5(6), the Issuer shall comply with such other and/or, as appropriate, additional pre-conditions, if any.

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with the Applicable Supervisory Regulations shall not constitute a default for any purpose.

- (7) *Redemption Notice; Redemption Amount.*

(a) Any notice of redemption in accordance with § 5(3), § 5(4) or § 5(5) shall be given by the Issuer to the Holders in accordance with § 10 observing a notice period of not less than 30 calendar days nor more than 60 calendar days. Such notice shall be irrevocable (subject to § 5(8)(d)) and shall specify:

(i) in the case of a notice of redemption in accordance with § 5(3) the Call Redemption Date or in the case of a notice of redemption in accordance with § 5(4) or § 5(5) the date of redemption; and

(ii) the Redemption Amount at which the Notes are to be redeemed.

"**Redemption Amount**" per Note means the Current Principal Amount per Note.

- (b) Even if such notice of redemption is given pursuant to § 5(3), § 5(4) or § 5(5), the Issuer will only redeem the Notes on the date of redemption specified in the notice pursuant to § 5(7)(a) if (i) the conditions to redemption and repurchase laid down in § 5(6) are fulfilled on the date of redemption specified in the notice pursuant to § 5(7)(a) and (ii) no Trigger Event has occurred after the notice of redemption pursuant to § 5(7)(a) but before the date of redemption specified in the notice pursuant to § 5(7)(a).

In addition, any notice of redemption in accordance with § 5(3), § 5(4) or § 5(5) and this § 5(7)(a) will be subject to § 5(8)(d).

(8) *Write-Down.*

- (a) If a Trigger Event (as defined below) has occurred, the Issuer will:
- (i) immediately inform the Competent Authority that the Trigger Event has occurred;
 - (ii) determine the Write-Down Amount (as defined below) as soon as possible, but in any case within a maximum period of one month following the determination that a Trigger Event has occurred;
 - (iii) without undue delay inform the Principal Paying Agent and the Holders that a Trigger Event has occurred by publishing a notice (such notice a "**Write-Down Notice**") which will specify the Write-Down Amount as well as the new/reduced Current Principal Amount of each Note and the Effective Date (as defined below), provided that any failure to provide such Write-Down Notice shall not affect the effectiveness of, or otherwise invalidate any Write-Down or give Holders any rights as a result of such failure; and
 - (iv) (without the need for the consent of Holders) reduce the then prevailing Current Principal Amount of each Note by the relevant Write-Down Amount (such reduction being referred to as a "**Write-Down**", and "**Written Down**" shall be construed accordingly) without undue delay, but not later than within one month, with effect as from the Effective Date.

For the avoidance of doubt, a Trigger Event may be determined at any time and may occur on more than one occasion, each Note may be subject to a Write-Down on more than one occasion and the Current Principal Amount of a Note may never be reduced to below EUR 0.01.

(b) *Write-Down Amount.*

- (i) The aggregate reduction of the aggregate Current Principal Amount of all Notes outstanding on the Effective Date will, subject as provided below, be equal to the lower of:
 - (A) the amount necessary to generate sufficient Common Equity Tier 1 capital pursuant to Article 50 CRR that would restore the Group CET 1 Capital Ratio to the Trigger Level at the point of such reduction, after taking into account (subject as provided below) the *pro rata* write-down and/or conversion of the prevailing principal amount of all Loss Absorbing Instruments (if any) to be written down and/or converted concurrently (or substantially concurrently) with the Notes, provided that, with respect to each Loss Absorbing Instrument (if any), such *pro rata* write-down and/or conversion shall only be taken into account to the extent required to restore the Group CET 1 Capital Ratio contemplated above to the lower of: (x) such Loss Absorbing Instrument's trigger level; and (y) the Trigger Level and, in each case, in accordance with the terms of the relevant Loss Absorbing Instruments and the Applicable Supervisory Regulations; and
 - (B) the amount that would result in the Current Principal Amount of a Note being reduced to EUR 0.01.
- (ii) The aggregate reduction determined in accordance with § 5(8)(b)(i) shall be applied to each Note *pro rata* on the basis of its Current Principal Amount prevailing immediately prior to the Write-Down, and references herein to "**Write-Down Amount**" shall mean, in respect of each Note, the amount by which the Current Principal Amount of such Note is to be Written Down accordingly.
- (iii) If, in connection with the Write-Down or the calculation of the Write-Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down and/or converted in full and not in part only (the "**Full Loss Absorbing Instruments**"), then:
 - (A) the provision that a Write-Down of the Notes should be effected *pro rata* with the write-down and/or conversion, as the case may be, of any Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written Down in full solely by virtue of the fact that such Full Loss Absorbing Instruments may be written down and/or converted in full; and

- (B) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write-down of principal and/or conversion, as the case may be, among the Notes and any Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write-down and/or conversion, such that the write-down and/or conversion of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (x) first, the principal amount of such Full Loss Absorbing Instruments shall be written down and/or converted *pro rata* (in the manner contemplated above) with the Notes and all other Loss Absorbing Instruments to the extent necessary to restore the Group CET 1 Capital Ratio to the Trigger Level; and (y) second, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (x) shall be written off and/or converted, as the case may be, with the effect of increasing the Group CET 1 Capital Ratio above the Trigger Level.
- (iv) To the extent the write-down and/or conversion of any Loss Absorbing Instruments for the purpose of § 5(8)(b)(i)(A) is not possible or not made for any reason, this shall not in any way prevent any Write-Down of the Notes. Instead, in such circumstances, the Notes will be Written Down and the Write-Down Amount determined as provided above but without including for the purpose of § 5(8)(b)(i)(A) any Common Equity Tier 1 capital in respect of the write-down or conversion of such Loss Absorbing Instruments, to the extent it is not possible for them to be or they are not for any reason, written down and/or converted.
- (v) The Issuer's determination of the relevant Write-Down Amount shall be irrevocable and binding on the Holders.
- (c) Any reduction of the Current Principal Amount of a Note pursuant to this § 5(8) shall not constitute a default by the Issuer for any purpose, and the Holders shall have no right to claim for amounts Written Down, whether in the insolvency or liquidation of the Issuer or otherwise, save to the extent (if any) such amounts are subject to a Write-Up in accordance with § 5(9).
- (d) The Issuer shall not give a notice of redemption after a Write-Down Notice has been given in respect of the relevant Trigger Event until the Effective Date of the Write-Down.

In addition, if a Trigger Event occurs after a notice of redemption but before the date on which such redemption becomes effective, the notice of redemption shall automatically be deemed revoked and shall be null and void and the relevant redemption shall not be made, all as set forth in § 5(7)(b).

- (9) *Write-Up.* The Issuer may, at its sole discretion, to the extent permitted in compliance with the Applicable Supervisory Regulations, reinstate any portion of the principal amount of the Notes which has been Written Down (such portion, the "**Write-Up Amount**"), subject to the below limitations. The reinstatement of the Current Principal Amount (such reinstatement being referred to herein as a "**Write-Up**", and "**Written Up**" shall be construed accordingly) may occur on more than one occasion (and each Note may be Written Up on more than one occasion), provided that the principal amount of each Note shall never be Written Up to an amount greater than its Original Principal Amount.

Write-Ups do not have priority over dividend payments and other distributions on shares and other CET 1 Instruments of the Issuer, i.e. such payments and distributions are permitted even if no full Write-Up of the Notes has been effected.

There will be no obligation for the Issuer to operate or accelerate a Write-Up under any circumstances.

If the Issuer so decides in its sole discretion, the Write-Up will occur with effect as from the Write-Up Date (as defined below).

At its discretion (without being obliged to) the Issuer may effect such Write-Up, provided that:

- (a) at the time of the Write-Up, there must not exist any Trigger Event that is continuing; any Write-Up is also excluded if such Write-Up would give rise to the occurrence of a Trigger Event;
- (b) such Write-Up is applied on a *pro rata basis* to all Notes and on a *pro rata basis* with the write-up of all Loss Absorbing Written Down Instruments (if any); and

- (c) the sum of: (x) the aggregate amount attributed to the relevant Write-Up of the Notes on the Write-Up Date (as defined below) and the aggregate amount of any previous Write-Up of the Notes since the end of the then previous financial year and prior to the Write-Up Date; (y) the aggregate amount of the increase in principal amount of each Loss Absorbing Written Down Instrument at the time of the relevant Write-Up and the aggregate amount of the increase in principal amount of each Loss Absorbing Written Down Instrument resulting from any previous write-up since the end of the then previous financial year and prior to the time of the relevant Write-Up; and (z) the aggregate amount of any distribution and any Additional Amounts thereon paid on the aggregate Current Principal Amount of the Notes and the aggregate amount of any distribution and any additional amounts thereon paid on Loss Absorbing Written Down Instruments as calculated at the moment the Write-Up is operated will not exceed the Maximum Write-Up Amount at any time after the end of the then previous financial year.

The amount of any Write-Up and payments of distributions on the reduced Current Principal Amount shall be treated as payment resulting in a reduction of Common Equity Tier 1 capital and shall be subject, together with other distributions on CET 1 Instruments, to any applicable restrictions relating to the Maximum Distributable Amount, including those referred to in § 24(2) BWG (implementing Article 141(2) CRD IV in Austria).

If the Issuer elects to effect a Write-Up, it will publish a notice about the Write-Up (including the amount of the Write-Up as a percentage of the Original Principal Amount and the effective date of the Write-Up (in each case a **"Write-Up Date"**)) no later than 10 calendar days prior to the relevant Write-Up Date to the Principal Paying Agent and, in accordance with § 10, to the Holders. The Write-Up shall be deemed to be effected, and the Current Principal Amount shall be deemed to be increased by the amount specified in the notice, with effect as of the Write-Up Date.

- (10) *Records of the Clearing Systems.* Any Write-Down or Write-Up shall be reflected in the records of CBL and Euroclear as a pool factor.

- (11) *Certain Definitions.* In these Terms and Conditions:

"Applicable Supervisory Regulations" means, at any time, any requirements of Austrian law or contained in the regulations, requirements, guidelines or policies of the Competent Authority, the European Parliament and/or the European Council, then in effect in Austria and applicable to the BAWAG Regulatory Group and/or (as the case may be) the Issuer, including but not limited to the provisions of the BWG, the CRD IV, the CRR, the CDR and the SSM Regulation, in each case as amended from time to time, or such other law, regulation or directive as may come into effect in place thereof.

"CDR" means the Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (*Capital Delegated Regulation*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CDR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"Current Principal Amount" means initially the Original Principal Amount, which from time to time, on one or more occasions, may be reduced by a Write-Down and, subsequent to any such reduction, may be increased by a Write-Up (as defined below), if any (up to the Original Principal Amount).

"Effective Date" means the date as is selected by the Issuer and specified as such in the Write-Down Notice to the Holders, but which shall be no later than one month (or such shorter period as the Competent Authority may require) following the occurrence of the relevant Trigger Event.

"Group CET 1 Capital Ratio" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) CRR of the BAWAG Regulatory Group on a consolidated basis, as calculated by the Issuer in accordance with the Applicable Supervisory Regulations, which determination will be binding on the Holders.

"Loss Absorbing Instrument" means, at any time, any AT 1 Instrument (other than the Notes) that may have all or some of its principal amount written down (whether on a permanent or temporary basis) or converted (in each case, in accordance with its terms or otherwise) on the occurrence or as a result of the Group CET 1 Capital Ratio falling below a certain trigger level.

"Loss Absorbing Written Down Instrument" means, at any time, any AT 1 Instrument (other than the Notes) or, as applicable, any instrument issued by a member of the BAWAG Regulatory Group and qualifying as Additional Tier 1 instruments pursuant to Article 52 CRR of the BAWAG Regulatory Group, that, at the point in time falling immediately prior to any Write-Up of the Notes, is outstanding and has a prevailing principal amount that is less than its original principal amount because all or some of its principal amount has been written down on a temporary basis, and that has terms permitting a principal write-up to occur on a basis similar to that provided in § 5(9) in the circumstances existing on the relevant Write-Up Date.

"Maximum Write-Up Amount" means the Net Profit multiplied by the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial principal amount of all Loss Absorbing Written Down Instruments of the BAWAG

Regulatory Group (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 capital pursuant to Article 25 CRR of the BAWAG Regulatory Group as at the date the relevant Write-Up is operated, or any higher or lower amount permitted to be used under the Applicable Supervisory Regulations in effect on the date of the relevant Write-Up.

"Net Profit" means the consolidated net income for the year (*Jahresüberschuss*) recorded in the consolidated financial statements of the Issuer, in each case after such consolidated financial statements have formally been determined (*festgestellt*) by either the supervisory board (*Aufsichtsrat*) or, if so requested, the shareholders' meeting (*Hauptversammlung*) of the Issuer.

A **"Trigger Event"** occurs if, at any time, the Group CET 1 Capital Ratio is lower than the Trigger Level. The determination as to whether a Trigger Event has occurred shall be made by the Issuer, the Competent Authority or any agent appointed for such purpose by the Competent Authority.

"Trigger Level" means 5.125 per cent.

§ 6 PRINCIPAL PAYING AGENT AND CALCULATION AGENT

- (1) *Appointment; Specified Offices.* The initial **"Principal Paying Agent"** and the initial **"Calculation Agent"** and their respective initial specified offices are:

Principal Paying Agent:

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Where these Terms and Conditions refer to the term **"Paying Agent(s)"**, such term shall include the Principal Paying Agent.

Calculation Agent:

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

The Paying Agent(s) and the Calculation Agent (together the **"Agents"** and each an **"Agent"**) reserve the right at any time to change their respective specified office to some other specified office in the same country.

- (2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint another Principal Paying Agent, additional or other Paying Agents or another Calculation Agent. The Issuer shall at all times maintain: (i) a Principal Paying Agent; (ii) so long as the Notes are listed on a stock exchange, a Paying Agent (which may be the Principal Paying Agent) with a specified office in such country as may be required by the rules of such stock exchange or its supervisory authorities; and (iii) a Calculation Agent. The Issuer will give notice to the Holders of any variation, termination, appointment of or any other change in any Agent as soon as possible upon the effectiveness of such change.
- (3) *Agents of the Issuer.* The Agents act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust to any Holder.
- (4) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by any Agent shall (in the absence of wilful default, bad faith, inequity or manifest error) be binding on the Issuer, all other Agents and the Holders.
- (5) *United States.* For purposes of these Terms and Conditions, **"United States"** or **"U.S."** means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

§ 7 TAXATION

- (1) *General Taxation.* All payments of distributions in respect of the Notes will be made by the Issuer free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by the Republic of Austria or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. If such withholding or deduction is required by law, the Issuer will pay such additional amounts in relation to distributions (but not principal) as will be necessary in order that the net amounts received by the Holders after such withholding or deduction will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction (the "**Additional Amounts**"). However, no such Additional Amounts will be payable on account of any Taxes which:
- (a) are payable by any person (including the Issuer) acting as custodian bank or collecting agent on behalf of a Holder, or by the Issuer if no custodian bank or collecting agent is appointed or otherwise in any manner which does not constitute a withholding or deduction by the Issuer from payments of principal or distributions made by it; or
 - (b) are payable by reason of the Holder having, or having had, some personal or business connection with the Republic of Austria; or
 - (c) are withheld or deducted pursuant to: (i) any European Union directive concerning the taxation of distributions income; or (ii) any international treaty or understanding relating to such taxation and to which the Republic of Austria or the European Union is a party, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such directive, treaty or understanding; or
 - (d) are withheld or deducted by a Paying Agent from a payment if the payment could have been made by another Paying Agent without such withholding or deduction; or
 - (e) are payable by reason of a change in law that becomes effective more than 30 days after the relevant distribution becomes due; or
 - (f) would not be payable if the Holder can avoid such a withholding or deduction providing a certificate of residence, certificate of exemption or any other similar documents required according to the respective applicable regulations.

The restrictions on the payment of distributions set forth in § 3(6) shall apply to any Additional Amounts *mutatis mutandis*.

- (2) *U.S. Foreign Account Tax Compliance Act (FATCA).* The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or the intergovernmental agreement between the United States and the other jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

§ 8 PRESENTATION PERIOD

The presentation period provided in § 801(1) sentence 1 German Civil Code is reduced to ten years for the Notes.

§ 9 FURTHER ISSUES OF NOTES, REPURCHASES AND CANCELLATION

- (1) *Further Issues of Notes.* The Issuer may from time to time, without the consent of the Holders, issue further Notes having the same terms as the Notes in all respects (or in all respects except for the issue date, issue price, Distribution Commencement Date and/or first Distribution Payment Date) so as to form a single series with the Notes.
- (2) *Repurchases.* Provided that all applicable regulatory and other statutory restrictions are observed, and provided further that the conditions to redemption and repurchase laid down in § 5(6) are met, the Issuer and/or any of its subsidiaries may repurchase Notes in the open market or otherwise at any price. Notes repurchased by the Issuer or the subsidiary may, at the option of the Issuer or such subsidiary, be held, resold or surrendered to the Principal Paying Agent for

cancellation.

- (3) *Cancellation.* All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

§ 10 NOTICES

- (1) *Notices of the Issuer.* All notices of the Issuer concerning the Notes shall be published in electronic form on the website of the Issuer (www.bawaggroup.com) and, as long as the Notes are listed on the Luxembourg Stock Exchange, on the website of the Luxembourg Stock Exchange (www.bourse.lu) or on such other website or other medium for the publication of notices as is required by the rules and regulations of the Luxembourg Stock Exchange. Any notice so given will be deemed to have been validly given on the third calendar day following the date of such publication.
- (2) *Publication of Notices of the Issuer via the Clearing System.* In addition to the publication of notices pursuant to § 10(1) the Issuer will deliver the relevant notices to the Clearing System, for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been given to the Holders on the seventh calendar day after the calendar day on which said notice was given to the Clearing System.
- (3) Any notice so given pursuant to § 10(1) and (2) above will be deemed to have been given, if published more than once, on the day following the date on which the first such publication is deemed to be made.
- (4) *Form of Notice to Be Given by any Holder.* Notices regarding the Notes which are to be given by any Holder to the Issuer shall be validly given if delivered in writing in English language to the Issuer or the Principal Paying Agent (for onward delivery to the Issuer) and by hand or mail. The Holder shall provide evidence satisfactory to the Issuer of its holding of the Notes. Such evidence may be: (i) in the form of a certification from the Clearing System or the Custodian with which the Holder maintains a securities account in respect of the Notes that such Holder is, at the time such notice is given, the Holder of the relevant Notes; or (ii) in any other appropriate manner.

"**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System.

§ 11 AMENDMENTS TO THE TERMS AND CONDITIONS, JOINT REPRESENTATIVE

- (1) *Amendment of the Terms and Conditions.* Subject to compliance with the Applicable Supervisory Regulations for the Notes to qualify as AT 1 instruments, the Issuer may amend the Terms and Conditions with the consent of a majority resolution of the Holders pursuant to §§ 5 *et seqq.* of the SchVG and the consent by the Competent Authority, to the extent then required under prevailing Applicable Supervisory Regulations. There will be no amendment of the Terms and Conditions without the Issuer's consent.

In particular, the Holders may consent to amendments which materially change the substance of the Terms and Conditions, including such measures as provided for under § 5(3) of the SchVG by resolutions passed by such majority of the votes of the Holders as stated under § 11(2) below. A duly passed majority resolution will be binding upon all Holders.

"**SchVG**" means the German Debt Securities Act (*Gesetz über Schuldverschreibungen aus Gesamtemissionen – SchVG*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant paragraphs of the SchVG include references to any applicable provisions of law amending or replacing such provisions from time to time.

- (2) *Majority requirements.* Except as provided by the following sentence and provided that the quorum requirements are being met, the Holders may pass resolutions by simple majority of the voting rights participating in the vote. Resolutions which materially change the substance of the Terms and Conditions, in particular in the cases of § 5(3)(1) through (9) of the SchVG, may only be passed by a majority of at least 75 per cent. of the voting rights participating in the vote (a "**Qualified Majority**"). The voting right is suspended as long as any Notes are attributable to the Issuer or any of its affiliates (within the meaning of § 271(2) of the German Commercial Code (*Handelsgesetzbuch – HGB*)) or are being held for the account of the Issuer or any of its affiliates.
- (3) *Resolutions.* Resolutions of the Holders will be made either in a Holders' meeting in accordance with § 11(3)(a) or by means of a vote without a meeting (*Abstimmung ohne Versammlung*) in accordance with § 11(3)(b), in either case convened by the Issuer or a joint representative, if any.
- (a) Resolutions of the Holders in a Holders' meeting will be made in accordance with §§ 9 *et seqq.* of the SchVG. The convening notice of a Holders' meeting will provide the further details relating to the resolutions and the voting procedure. The subject matter of the vote as well as the proposed resolutions will be notified to Holders in

the agenda of the meeting.

- (b) Resolutions of the Holders by means of a voting not requiring a physical meeting (*Abstimmung ohne Versammlung*) will be made in accordance with § 18 of the SchVG. The request for voting as submitted by the chairman (*Abstimmungsleiter*) will provide the further details relating to the resolutions and the voting procedure. The subject matter of the vote as well as the proposed resolutions will be notified to Holders together with the request for voting.
- (4) *Second Holders' meeting.* If it is ascertained that no quorum exists for the vote without meeting pursuant to § 11(3)(b), the chairman (*Abstimmungsleiter*) may convene a meeting, which shall be deemed to be a second meeting within the meaning of § 15(3) sentence 3 of the SchVG.
- (5) *Registration.* The exercise of voting rights is subject to the registration of the Holders. The registration must be received at the address stated in the request for voting no later than the third day prior to the meeting in the case of a Holders' meeting (as described in § 11(3)(a) or § 11(4)) or the beginning of the voting period in the case of voting not requiring a physical meeting (as described in § 11(3)(b)), as applicable. As part of the registration, Holders must demonstrate their eligibility to participate in the vote by means of a special confirmation of their respective depositary bank hereof in text form and by submission of a blocking instruction by the depositary bank stating that the relevant Notes are not transferable from and including the day such registration has been sent until and including the stated end of the meeting or day the voting period ends, as the case may be.
- (6) *Joint representative.* The Holders may by majority resolution provide for the appointment or dismissal of a joint representative, the duties and responsibilities and the powers of such joint representative, the transfer of the rights of the Holders to the joint representative and a limitation of liability of the joint representative. Appointment of a joint representative may only be passed by a Qualified Majority if such joint representative is to be authorised to consent to a material change in the substance of the Terms and Conditions in accordance with § 11(1) hereof.

The joint representative shall have the duties and powers provided by law or granted by majority resolutions of the Holders. The joint representative shall comply with the instructions of the Holders. To the extent that the joint representative has been authorised to assert certain rights of the Holders, the Holders shall not be entitled to assert such rights themselves, unless explicitly provided for in the relevant majority resolution. The joint representative shall provide reports to the Holders on its activities. The provisions of the SchVG apply with regard to the recall and the other rights and obligations of the joint representative.

Unless the joint representative is liable for wilful misconduct (*Vorsatz*) or gross negligence (*grobe Fahrlässigkeit*), the joint representative's liability shall be limited to ten times the amount of its annual remuneration.

- (7) *Notices.* Any notices concerning this § 11 will be made in accordance with §§ 5 *et seqq.* of the SchVG and § 10.
- (8) *Exclusion of the Applicability of the Austrian Notes Trustee Act.* To the extent legally permissible, the applicability of the provisions of the Austrian Notes Trustee Act (*Kuratorenengesetz*) and the Austrian Notes Trustee Supplementation Act (*Kuratorenenergänzungsgesetz*) is explicitly excluded in relation to the Notes.

§ 12 APPLICABLE LAW, PLACE OF JURISDICTION AND ENFORCEMENT

- (1) *Applicable Law.* The Notes, as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by, and shall be construed exclusively in accordance with, German law, *provided that* the status provisions in § 2 shall be governed by, and shall be construed exclusively in accordance with, Austrian law.
- (2) *Place of Jurisdiction.* Subject to any exclusive court of venue for specific legal proceedings in connection with the SchVG, the District Court (*Landgericht*) in Frankfurt am Main, Federal Republic of Germany, shall have exclusive jurisdiction for any action or other legal proceedings (the "**Proceedings**") arising out of or in connection with the Notes.
- (3) *Enforcement.* Any Holder of Notes may in any Proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in its own name its rights arising under such Notes on the basis of: (a) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Notes: (i) stating the full name and address of the Holder; (ii) specifying the aggregate principal amount of the Notes credited to such securities account on the date of such statement; and (iii) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (i) and (ii); and (b) a copy of the Global Note certified as being a true copy by a duly authorised officer of the Clearing System or a depositary of the Clearing System, without the need for production in such Proceedings of the actual records or the Global Note representing the Notes. Each Holder may, without prejudice to the foregoing, protect and enforce its rights under the Notes also in any other way which is admitted in the country of the Proceedings.

5 DESCRIPTION OF THE ISSUER

5.1 Information about the Issuer

5.1.1 General information about the Issuer

The Company's legal name is "BAWAG Group AG". The Company is registered in the Austrian Companies Register (*Firmenbuch*, the "**Companies Register**") under registration number FN 269842 b as a stock corporation formed and operated under Austrian law with unlimited duration. Its business address is Wiesingerstraße 4, 1010 Vienna, Austria. The Company is the holding company of BAWAG Group. BAWAG Group's business is primarily conducted by its operating subsidiaries, in particular BAWAG P.S.K., easybank AG, start:bausparkasse AG, Wohnbaubank, IMMO-BANK and Südwestbank.

The Company may be reached at its business address as well as by phone (+43 (0) 599 05) or by e-mail under office@bawaggroup.com.

5.1.2 Corporate history and development of the Issuer

The Company was first registered in the Companies Register on 16 November 2005 as Pa-Zweiundfünfzigste WTP Beteiligungsverwaltungs GmbH, a limited liability company under Austrian law. In December 2006, the Company was acquired by Raquert Holding B.V., a Dutch limited liability company which held 100% of the share capital until January 2007. In January 2007, Raquert Holding B.V. transferred its 100% participation in the Company to Promontoria Sacher Holding, B.V. ("**PSH**"). On 8 May 2007, PSH as the Company's sole shareholder resolved to increase the Company's share capital by € 99,965,000 to € 100,000,000. The entire capital increase was subscribed by PSH. The capital increase became effective on 17 May 2007. Since then, the share capital of the Company has not changed. On 14 September 2007, PSH as the Company's sole shareholder resolved to change the Company's name to BAWAG Holding GmbH, with the change becoming effective on 5 October 2007.

In August 2017, the Company was transformed into a stock corporation established under Austrian law (*Aktiengesellschaft*) for an indefinite period of time. In the course of this transformation, the Company's name was changed to BAWAG Group AG. Both the transformation and the name change became effective on 19 August 2017. Since 25 October 2017, BAWAG Group AG is listed on the Vienna Stock Exchange.

5.1.3 Statutory purpose of the Issuer

The purpose of the Issuer according to its articles of association is (a) the acquiring, holding, managing and disposing of participations in existing companies and businesses and/or companies and businesses to be established within Austria and abroad, including banks, indifferent in which corporate form; (b) the exercise of the management and holding functions in respect of participations pursuant to (a) as well as companies and businesses of BAWAG Group, including on the basis of corporate law, or on the basis of contractual agreements with companies and businesses of BAWAG Group, including the activity as and exercise of the functions of a financial holding; and (c) the provision of management services of any kind with respect to participations in companies and business of the BAWAG Group as well as contracts and other business relationships of the BAWAG Group with domestic and foreign contract partners.

The Issuer is entitled to enter into any transactions and to take all steps which are in connection with or appear to be directly or indirectly suitable to promote its purpose. The Issuer may establish branches and subsidiaries within Austria and abroad. The Issuer may undertake all legal transactions that could be useful in achieving or promoting the purposes of the Issuer.

The Issuer may limit the actual scope of its activities to one or several parts of its corporate purpose.

The Issuer is not entitled to engage directly in business activities that require a license pursuant to the Austrian Banking Act, the Austrian Securities Supervision Act, the Austrian Insurance Supervision Act or any other license that must be obtained prior to the Issuer's registration in the commercial register; activities reserved for Public Accountants and Tax Advisors are also excluded.

5.1.4 Statutory auditors

The independent auditor of BAWAG Group AG is KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Vienna, Austria ("**KPMG**"), a member of the Austrian Chamber of Auditors (*Kammer der Wirtschaftstreuhand*). KPMG audited the German-language originals of the Audited Consolidated Financial Statements as of and for the financial years ended 31 December 2017 and 2016, prepared in accordance with IFRS as adopted by the EU. In each case, KPMG issued an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk*). Apart from the German-language originals of the Audited Consolidated Financial Statements, no financial information referred to in this Prospectus has been audited.

5.1.5 Any recent events particular to the Issuer that are to a material extent relevant for the evaluation of its solvency.

The Issuer is not aware of any recent events particular to BAWAG Group (i.e. occurring after the most recent published audited consolidated financial statements of the Issuer as of and for the financial year ended 31 December 2017) that are to a material extent relevant to the evaluation of its solvency.

5.2 Business Overview

5.2.1 Principle areas of activity

BAWAG Group is one of Austria's largest banks, serving over 2.5 million customers. BAWAG Group offers a wide range of banking products and services, from retail banking to corporate lending and direct banking, and distributes a range of insurance, investment and other financial products offered by its third-party partners.

5.2.2 Bank Transformation

In 2012, BAWAG Group began executing a transformational initiative to improve and restructure its operations that would improve its financial strength and efficiency and profitability metrics. The key pillars of the transformation included (1) re-focusing on core geographic markets and products, (2) driving cost efficiency through disciplined cost management and simplified processes, (3) deleveraging the balance sheet to increase capital and liquidity and (4) rebuilding the capital base by redeeming all non-sustainable capital instruments.

The following table shows an overview of BAWAG Group's successful transformation by certain key financial metrics as of and for the financial years 2012 to 2017:

	2012	2013	2014	2015	2016	2017
Profit before tax (in € million)	23	191	316	419	461 ¹⁾	517
Net Profit (in € million)	42	199	315	394	473 ¹⁾	467
RoE (@12% CET 1)	1.2%	6.6%	12.0%	14.4%	16.5%	15.3%
RoTE (@12% CET 1)	1.4%	7.7%	14.0%	16.3%	18.9% ²⁾	17.9%
Net Interest Margin	1.61%	1.65%	2.14%	2.35%	2.32%	2.23%
Risk cost ratio	0.77%	0.36%	0.32%	0.17%	0.15%	0.18%
Cost-Income Ratio	70%	68%	54%	48%	45% ¹⁾	42% ³⁾
CET 1 ratio (fully loaded)	6.2%	9.4%	12.2%	12.3%	13.6% ²⁾	13.5%
Leverage ratio (fully loaded)	3.1%	4.1%	5.7%	6.5%	6.5%	6.2%
Balance Sheet Leverage	19.4x	16.4x	13.3x	12.1x	12.7x	12.8x
NPL ratio	3.5% ⁴⁾	2.5% ⁴⁾	2.0% ⁴⁾	1.9% ⁴⁾	1.7% ⁴⁾	2.0% ⁵⁾
Assets (in € billion)	41.5	36.6	34.9	35.7	39.8	46.1
IFRS Equity (in € billion)	2.1	2.2	2.6	3.0	3.1	3.6
Tangible Equity (in € billion)	1.7	1.8	2.3	2.6	2.7	3.1
CET 1 capital (fully loaded, in € billion)	1.3	1.5	2.1	2.1	2.6	2.9

¹⁾ 2016 figures were adjusted from the figures originally reported due to the finalisation of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMOBANK.

²⁾ Number has been adjusted from the number originally reported by BAWAG Group due to an on-site inspection on behalf of the ECB in early 2017 which identified incorrect application of certain regulatory provisions in relation to two residential mortgage loan portfolios resulting in a retrospective increase of the associated risk-weighted assets. Please see "5.9.4 On-site Inspection by the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment" for further information regarding the on-site inspection.

³⁾ In 2017, BAWAG Group initiated a LTIP for members of the Management Board and the senior leadership team. The performance-vested part (75%) was recognised in 2017. This recognition is excluded in the calculation of the cost-income ratio. The Cost-Income Ratio including the LTIP would have been 46.5%.

⁴⁾ Number has been adjusted from the number originally reported by BAWAG Group due to the adjustment of the definition of the NPL ratio in 2017.

⁵⁾ Number excludes the IFRS 3 effect, including the effect of IFRS 3 the NPL ratio as of 31 December 2017 would have been 1.8%. The NPL ratio would have amounted to 1.5% if all provisions were released which BAWAG Group accrued to account for the risks related to the litigation with the City of Linz (see "2.1.2.23 BAWAG Group is, and may in the future be, subject to a number of legal and regulatory proceedings, the outcome of which could have a material adverse effect on BAWAG Group's business, financial condition, results of operations and prospects." and "5.9.1 Litigation with the City of Linz").

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

The increase in BAWAG Group's CET ratio (fully loaded) from 6.2% in 2012 to 13.6% in 2016 was mainly driven by the redemption of non-sustainable capital (€ 1.5 billion), organic capital accretion (€ 1.1 billion) and the reduction of risk-weighted assets.

5.2.3 Strategy

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

5.2.3.1 Organic and Inorganic Growth in Core Markets

BAWAG Group's focus is growth in its home country of Austria and more broadly the DACH region (i.e. Germany, Austria and Switzerland), both organically and inorganically via acquisitions. It aims to grow its market share in core products in Austria, establish a meaningful presence in Germany and build a best-in-class customer franchise throughout the DACH region.

Capitalising on long-standing customer relationships in Austria

BAWAG Group's strategy for Austria is based on several key pillars, including integrated branch and digital platforms, an efficient customer-focused organisation and its direct banking subsidiary easybank. BAWAG Group's branch network, particularly in key urban growth areas of Austria, tailors advisory services to customers seeking financial planning and product advice. Its long-standing customer relationships in Austria are important platforms for its cross-selling activities and for attracting new customers. In addition, BAWAG Group plans to further consolidate its organisational structure in order to continue to improve its customer service across Austria. In order to target the growing number of potential customers who do not require full access to the services provided in its branches, BAWAG Group relies on its direct banking subsidiary, easybank, which attracts a customer base which is largely complementary to the customer base of its BAWAG P.S.K. Retail segment.

Expanding into Western European Markets, with a primary focus on the DACH region

Furthermore, BAWAG Group intends to use easybank as the platform to drive cross-border retail expansion into Western European markets, with a primary focus on the DACH region. The DACH region is a third of the size of the U.S. market in terms of population and has attractive features including:

- population of 100 million;
- annual GDP of € 4 trillion and GDP per capita of more than € 40,000;
- an average unemployment rate of less than 5%; and
- a projected GDP growth rate of 1-2% over the 2018-2019 period.

(Source: International Monetary Fund, World Economic Outlook Database, October 2017)

The DACH region also benefits from a common culture and language, with a stable legal system and credit environment.

The region has low levels of consumer indebtedness, home ownership and digital penetration: consumer indebtedness, measured by loans taken out by households as a percentage of GDP as of 2016, stood at approximately 65% in the entire DACH region, calculated as the GDP-weighted average of 52% in Austria, 54% in Germany and 128% in Switzerland (source: Company calculations based on Eurostat, Total financial assets and liabilities of households in EU countries, 2016, in % of GDP). Further, home ownership stood, as of 2016, at approximately 50% in the DACH region (55% in Austria, 52% in Germany and 43% in Switzerland) (source: Eurostat, EU-SILC survey, Distribution of population by tenure status), and digital penetration, measured as a percentage of individuals using internet banking, stood, as of 2017, at 57% in Austria, 56% in Germany and 66% in Switzerland (source: Eurostat, ICT usage in households and by individual). On average, households in Austria and Germany are less indebted than households in other Western European countries, which BAWAG Group sees as an opportunity to grow its retail loan business while continuing to increase its market share. Lastly, the levels of domestic credit to total GDP in Austria and Germany stood at 130% and 134% respectively by the end of 2016 based on the latest available figures (source: Worldbank, Domestic credit provided by financial sector (% of GDP), 2017). This is significantly below the United States (at 242%) and the average of OECD countries (210%), which BAWAG Group believes represents a significant opportunity for credit expansion within Austria and Germany.

Growth opportunities in the international corporate and real estate financing business

BAWAG Group's DACH retail and corporate lending business is complemented by its international corporate lending and international real estate financing business in Western Europe and the United States, which BAWAG Group aims to grow further. This strategy provides BAWAG Group with an avenue for earnings diversification and growth opportunities without the risks that could arise from expansion into countries lacking stable geopolitical and macroeconomic fundamentals.

Attractive opportunities for growing inorganically in the DACH region

BAWAG Group believes that there are attractive opportunities to grow inorganically in the DACH region. Currently, the DACH region has a highly fragmented banking landscape with a high share of savings and cooperative banks. BAWAG Group believes that the low profitability of DACH retail banks can be best addressed with technological investments, fixing structural cost imbalances and implementing a focused business strategy. BAWAG Group believes that its track record in improving cost efficiency through business simplification and investment in technology makes it well positioned to make synergistic bank acquisitions in the DACH region.

M&A deal pipeline

BAWAG Group is continuously evaluating its M&A deal pipeline. It is currently assessing several bolt-on acquisition opportunities that would complement the Südwestbank product offering and business franchise, mirror BAWAG Group's transformation in Austria and enhance its footprint in the DACH region.

The strategic rationales for acquisition opportunities in its current deal pipeline include:

- Acquire new sales channels for retail, small and medium sized enterprises and corporates: BAWAG Group is in discussions with several well-known financial institutions in Germany, aiming to roll out sales partnerships and/or exploring additional acquisitions and market share growth.
- Digital / direct banking franchise expansion: Consistent with its focus on technology and the easybank expansion, BAWAG Group is looking into acquisition opportunities which would enable it to scale its digital / direct banking franchise and grow its customer base while ensuring disciplined pricing and profitable product penetration.
- Establish footprint in the building society (*Bausparkasse*) sector: Similar to the positive acquisition experience with start:bausparkasse in Austria, BAWAG Group believes that there are compelling opportunities in the German building society (*Bausparkasse*) sector and recently signed an agreement to acquire the German bank Deutscher Ring Bausparkasse AG. There are a number of challenges that banks operating in this sector are currently facing, including structural cost imbalances and a lack of focus on efficiency and technology, mismanagement of product offer and pricing including interest rate risk. Given the credit risk profile, widespread product distribution across German households and strong housing market performance, BAWAG Group believes this sector presents transformation opportunities.

BAWAG Group is currently diligencing and negotiating acquisitions with combined balance sheet assets of up to approximately € 5 billion. It is seeing an increased inflow of acquisition opportunities, and is evaluating potential additional acquisitions with combined balance sheet assets of up to approximately € 20 billion that meet BAWAG Group's rigorous diligence standards and are consistent with the strategic rationales outlined above. However, as of the date of this Prospectus, none of the acquisitions currently in BAWAG Group's deal pipeline have yet been agreed upon and thus do not constitute fixed investments.

In December 2017, BAWAG Group entered into an agreement to purchase Deutscher Ring Bausparkasse AG, Hamburg, from Basler Versicherungen, as part of the Bâloise Group, and from Signal Iduna Group. Furthermore, BAWAG Group signed a memorandum of understanding with Basler Versicherungen Germany, as part of Bâloise Group, to pursue a long-term strategic cooperation. The transaction is subject to customary closing conditions and regulatory approvals.

BAWAG Group has a structured M&A roadmap approach and governance framework which enables its teams to underwrite several transactions simultaneously. In addition, there is a separate team focused exclusively on M&A which reports directly to the CFO. BAWAG Group's M&A underwriting places a particular emphasis on purchase price discipline and achieving RoTE in the mid to high teens after implementation of an operational turnaround. Acquisition underwriting and post-acquisition integration work streams are fully interlinked and integrated into the BAWAG Group's operating methods, ensuring continuity as far as functional ownership, resourcing, project and transactional expertise are concerned.

5.2.3.2 *Making Customers' Lives Easier*

BAWAG Group is dedicated to offering customers the best, most convenient experience when conducting their banking through its digital and physical channels. Its digital initiatives aim at increasing convenience and satisfaction for its customers, including by providing clear, transparent and easy to understand banking products and services on a 24/7 basis.

Focus on product simplicity

BAWAG Group focuses on product simplicity and consistency of offerings, by providing clear, fair and transparent banking products and services across all of its distribution channels. This is assisted by big data and predictive analytics systems which enable BAWAG Group to personalise and customise product offerings. BAWAG Group continues to strengthen its partnerships and build new ones mainly in the digital area to continue to develop its retail franchise and enhance customer connectivity and its product offerings and services.

Focus on digital offerings

BAWAG Group aims to be a leader in digital offerings to its customers, enhancing its customers' experience with new e-banking and mobile features. Its new security application and one-touch security functions are designed to enable its customers to purchase products or perform transactions anytime and anywhere, safely and securely. BAWAG Group is targeting active online customers, who it believes to be more engaged and profitable than purely offline customers, as evidenced, on average, by 2.6 versus 2.9 products sold per customer, loan volumes of € 3,800 versus € 8,100 and Core Revenues of € 253 versus € 375 when comparing offline versus active online customers (all figures as of the end of the financial year 2016).

Improvement of customer experience

BAWAG Group has improved and streamlined its customer experience in the onboarding process, by partnering to acquire new technologies. Full online identification verification was first permitted by Austrian regulations in early 2017, and BAWAG Group was one of the first banks in Austria to make it available to its customers through a partnership with WebID. Customers can open a bank account in a fully-online process with a mobile device or in their homes, without need to visit a branch. In addition, in order to seamlessly shift bank accounts in an online process that takes just a few minutes, BAWAG Group has partnered with FinReach, to make customer onboarding a simple, seamless process.

BAWAG Group invests in all its distribution channels to offer its customers attractive savings, lending, leasing, insurance, building society and investment products and services wherever and whenever they want. In order to ensure that all of its customers benefit from its improving product offering, BAWAG Group offers upgrades to products previously offered by BAWAG Group.

Recently, BAWAG Group launched a new product family for its current accounts ('KontoBoxes'). The new generation of KontoBoxes offers customers a series of enhanced services, such as a Gold debit card with mobile phone-based payment technology ('Smartpay'), and a new loyalty program 'DANKESCHÖN', which rewards customers for the use of products and payment cards. These value added services have driven increased interest in premium current account structures that provide greater functionality and enhanced customer experience across online and physical channels. BAWAG Group continues to provide a range of products for its customers' needs and phase out the legacy versions which are often at higher cost with lower functionality for the customer.

Digitisation also serves to streamline BAWAG Group's relationships with distribution partners creating faster response time to end customers of BAWAG Group. BAWAG Group maintains a platform that allows for its chosen distribution partners and brokers to directly connect with its back end servicing operations, thereby creating a streamlined online application and approval process that it believes to be unique in Austria for mortgages. This straight through processing provides BAWAG Group's partners with a more efficient approval process and serves as an important channel for new customer acquisition, and will serve as BAWAG Group's origination channel with start:bausparkasse for building society products as well.

5.2.3.3 *Focus on Efficiency and Operational Excellence*

The overall banking industry across Europe is still facing several headwinds driven by moderate economic growth, a multi-year low-interest rate environment, continued pricing pressure, increased regulatory requirements and structurally inefficient business models. Additionally, as more and more companies from outside the traditional financial services industry (Fintechs and e-commerce platforms) are entering the market, taking market share or negatively impacting margins and attacking the traditional revenue streams of banks and financial institutions, the competitive pressure BAWAG Group is confronted with continues to increase.

BAWAG Group is convinced that in this challenging environment, banks have to change their overall business models and cost structure to be more efficient in their operations. Over the counter transactional needs are much reduced, as customers expect to conduct simple transactions at ATMs and digitally. In addition, the need for physical proximity to the customer through disbursed branch coverage is becoming less relevant as customers interface with their financial accounts primarily through mobile or other online solutions. Customers continue to value financial advice and simplification. BAWAG Group has anticipated this challenge and is addressing it by focusing on optimising processes and driving operational excellence and technological innovation. BAWAG Group plans to further consolidate its branch network and continues to invest in its branches, employees and digital capabilities, in order to create advisory-focused branches. This requires a concentration of resources into fewer, larger branches focused on financial service with an integrated digital customer experience, resulting in better advisory capability and enhanced customer relationships and services. As part of this vision, BAWAG Group believes it is critical that its current branch count be reduced and resources reallocated.

The key elements of BAWAG Group's process optimisation and efficiency approach are to:

- automate and simplify processes as BAWAG Group transitions to a fully digital world, enhancing computing and analytical capabilities and improving the overall customer experience. Its multi-year technology IT roadmap allows BAWAG Group to continually upgrade its infrastructure and leverage new technologies as they are introduced to enhance the focus on customers;
- streamline and standardise products, services and processes, both online and in branches, which benefits customers, reduces costs and focuses BAWAG Group's branch network on providing value-added advisory services;
- continue to closely evaluate all of BAWAG Group's operations to identify those that could be more efficiently implemented through leveraging intragroup platforms or centralising services and processes across BAWAG Group or through third-party partnerships; and
- maintain strict cost control throughout the organisation.

5.2.3.4 *Safe and Secure*

BAWAG Group's management is committed to operating the business in a safe and secure way. A strong capital position, stable deposits and low and predictable risk costs across its products are fundamental cornerstones for the execution of its business strategy. BAWAG Group regularly engages in a detailed analysis of appropriate risk-adjusted returns on its capital utilisation in each business unit and new product initiative.

BAWAG Group's capital base is already fully compliant with the CRR with no reliance on any transitional provisions. A key element of its strategy is to retain strong CET 1 and total capital positions and a conservative leverage ratio as BAWAG Group aims to maintain its position as one of the best capitalised banks in Austria and Europe measured by the fully loaded CET 1 ratio of 13.5% as of 31 December 2017. This is complemented by a conservative risk weight density of 47% (defined as risk-weighted assets over total assets) as of 31 December 2017.

BAWAG Group targets a fully loaded CET 1 ratio of at least 12% over time, which it believes to be a prudent level to manage through various economic cycles and to provide BAWAG Group with the flexibility to consistently support all of its growth initiatives, both organic as well as inorganic.

BAWAG Group's capital base is complemented by a broad funding structure. Retail and corporate deposits historically have been the core part of its funding strategy and will continue to be the dominant source of funding for its balance sheet. BAWAG Group supplements its deposits with a diversified strategy of wholesale and own issue funding. It has issued senior unsecured bonds, subordinated bonds, covered bonds (i.e. securities backed by cash flow from mortgages or public sector loans) and residential mortgage backed securities.

BAWAG Group's long-term goal is to maintain a stable deposit base along with diversified wholesale and own issue funding. Furthermore, its ratio of secured funding to overall funding stood at 13% as of 31 December 2017, which is reflective of the low overall encumbrance of BAWAG Group's balance sheet assets.

BAWAG Group has a solid liquidity profile, with its liquidity coverage ratio standing at 150% at year-end 2017. Additionally, BAWAG Group is managed with a low balance sheet leverage of 12.8x or equity-to-total assets of 7.8% and a fully loaded regulatory leverage ratio of 6.2% as of 31 December 2017.

5.2.4 **Overview of Segments**

BAWAG Group operates one of Austria's largest retail banks (source: Statista, Leading banks in Austria in 2016, by total assets, 2017) serving, as of 31 December 2017, over 2.5 million customers. BAWAG Group is a major player in the Austrian direct banking market through its easybank business and online and mobile platforms, and it also operates a centralised branch network with a focus on key urban growth areas of Austria, particularly in Vienna. In Vienna, the population increased by 12% from approximately 1.67 million in 2008 to approximately 1.87 million in 2017 and is expected to increase further by 5% to approximately 1.97 million by 2026 (source: Statistisches Jahrbuch der Stadt Wien (statistical yearbook of the City of Vienna), 2017). BAWAG Group intends to further expand its direct banking business into other Western markets, including Germany, where BAWAG Group plans to launch its online loan originations platform 'Qlick'. BAWAG Group also distributes a wide range of insurance, investment products and other financial products offered by third-party partners and provides lending and other banking services to corporate and public customers. The geographic focus of the business is placed on the DACH region (comprising Austria, Germany and Switzerland), and in particular on BAWAG Group's home market of Austria and, to a lesser extent, Germany. However, BAWAG Group also has corporate and commercial real estate lending and portfolio financing activities in Western Europe outside the DACH region and in the United States. BAWAG Group manages the liquidity from its core funding franchise through an investment portfolio of financial securities, with no direct exposure to China, Russia, Hungary or Southeastern European countries.

After the acquisition of Südwesbank, BAWAG Group added a separate reportable segment for Südwesbank and now has seven reportable segments, namely (i) BAWAG P.S.K. retail, (ii) easygroup, (iii) Südwesbank, (iv) DACH Corporates & Public Sector, (v) International Business, (vi) Treasury Services & Markets and (vii) Corporate Center.

5.2.4.1 *BAWAG P.S.K. Retail*

As of 31 December 2017, BAWAG P.S.K.'s Retail segment served 1.7 million retail and small business customers, originating € 1.4 billion of new loans in 2017. The segment is operated through a centralised branch network and a digital platform supported by a customer care center. The segment's strategy is to offer simple, transparent and easy to understand products and services using a data-driven approach to product offering and customer relationships through branch, online and direct sales channels and capitalising on BAWAG P.S.K.'s well-recognised national brand. This is evidenced by the loyalty of the segment's customer base: more than 60% of its customers have been with BAWAG P.S.K. for at least ten years, as of 31 December 2017. BAWAG Group has entered into strategic partnerships with Amundi, the largest European asset manager, and Generali, one of Europe's largest insurers, to broaden the product offering to the customers in BAWAG P.S.K.'s Retail segment by including securities, investment products and insurance. In addition, BAWAG P.S.K.'s Retail segment supports Austrian companies with an annual turnover of up to € 50 million and also includes social housing. As of 31 December 2017, BAWAG P.S.K.'s retail segment provided comprehensive lending and payment services for over 32,000 small business customers.

5.2.4.2 *easygroup*

As of 31 December 2017, easygroup is, in its own assessment, Austria's leading direct banking group. Through online and mobile channels, easygroup offers a full banking product suite ranging from current accounts and savings products to credit cards, consumer loans, housing loans, auto leases and investment products. As of 2017, nearly 50% of easybank customers use easybank as their principal or sole banking relationship, which BAWAG Group believes to be higher than at other direct bank competitors in Austria. easygroup seeks to provide its customers with a one-stop solution for all their banking needs, with a core focus on making its customers' lives easier through digital solutions. As of 31 December 2017, easygroup served approximately 1 million private and small business customers and borrowers. It comprises *easybank*, in its own assessment, the leading direct bank in Austria as measured by the number of accounts and *easyleasing*, the third-largest automobile lessor in Austria based on assets as of 31 December 2017 (source: VÖL Leasing in Austria 2017). New origination across the segment amounted to € 0.5 billion in 2017. Furthermore, the completed acquisition of PayLife, the card issuing business of SIX Payment Services Austria, makes easygroup, in its own assessment, one of the largest card issuers in Austria by number of credit and debit cards issued. easygroup's objective is to continue to be, in its own assessment, a leading direct bank in Austria, while expanding into larger Western markets, particularly Germany. easygroup obtained regulatory clearance to open a branch in Germany. The completed acquisition of Südwesbank will further advance and accelerate easybank's expansion in Germany by providing easygroup with a German toehold from which to expand into this country.

5.2.4.3 *Südwesbank*

Südwesbank, founded in 1922, is a universal bank with a long history of serving customers in the prosperous Baden-Württemberg region of southwest Germany and is headquartered in Stuttgart, Germany. Südwesbank has more than 90,000 retail and commercial customers and offers a wide range of lending and deposit products and services. Besides the lending and deposit business, Südwesbank offers additional products including insurance, savings contracts with building societies and brokerage services. Customers are serviced through a physical branch network and online service capabilities. Südwesbank uses different strategic partnerships with other German banks and insurance companies as a complement to its own product offering.

5.2.4.4 *DACH Corporates & Public Sector*

This segment comprises BAWAG Group's corporate and public lending activities and other fee-driven financial services, with a focus on term loans, payment services products and security sales. The segment mainly services Austrian customers, as well as selected client relationships in neighbouring countries (primarily Germany). The segment originated € 1 billion of new loans in 2017. As of 31 December 2017, the DACH Corporates & Public Sector segment served over 6,000 corporate and public sector customers, providing financing, investment and foreign exchange products as well as payment service products. In addition, the segment established an originate-to-sell platform in which it organises public sector loans with a view to sell the investments to insurance companies.

5.2.4.5 *International Business*

This segment includes BAWAG Group's international corporate lending and international real estate financing business outside the DACH region, with a focus on developed countries within Western Europe as well as the United States. The segment aims at international corporate, real estate and portfolio lending with a preference for secured or unsecured investment grade loans and senior secured non-investment grade loans. The international corporate lending business focuses primarily on lending to free cash flow generating companies with defensive business profiles and appropriate capital structures. The international real estate financing business focuses on senior loan positions in cash flow generating properties. The segment has a strong credit profile across international assets, and saw € 2.1 billion in new originations in 2017. BAWAG Group's International Business

segment offers a competitive service in terms of response times, reliability and flexibility while maintaining premium pricing. It has limited exposure to land, development and construction financings.

5.2.4.6 Treasury Services & Markets

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

5.2.4.7 Corporate Center

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

The following table provides an overview of Core Revenues and profit before tax generated by BAWAG Group's seven reportable segments BAWAG P.S.K. Retail, easygroup, Südwestbank, DACH Corporates & Public Sector, International Business, Treasury Services & Markets and Corporate Center (as of and for the financial year ended 31 December 2017):

	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Core Revenues (in € million)	556.4	171.4	8.6	109.7	129.5	49.4	(16.8)	1,008.2
Core Revenues %.....	55%	17%	1%	11%	13%	5%	(2%)	100%
Profit before tax (in € million)	224.6	126.2	0.5	42	85.2	54.7	(15.9)	517.3
Profit before tax %	43%	24%	0%	8%	17%	11%	(3%)	100%

5.2.5 Employees

The following tables show, as of the end of the financial years ended 31 December 2017 and 2016, the number of employees as well as the full-time equivalent employees of BAWAG Group.

	As of the end of the financial year ended December 31,	
	2017	2016
Headcount – salaried employees	(audited)	
Number of employees on reporting date	4,079	3,528
Average number of employees	3,469	3,615

Source: Company information.

	As of the end of the financial year ended December 31,	
	2017	2016
Full-time equivalents – salaried employees	(audited)	
Number of employees on reporting date	3,437	2,951
Average number of employees	2,894	3,048
Active employees ¹⁾	2,959	2,496

¹⁾ Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

Source: Company information.

5.3 Funding by type and maturity profile of own issues

The following tables show, as of the end of the financial year ended 31 December 2017, a breakdown of the Company's own issues of debt instruments by type and by remaining period to maturity (IFRS book values).

Own issues – breakdown by type	As of 31 December 2017	
	in € million	in %
	(unaudited)	
Subordinated and supplementary	573	10%
Covered & Residential Mortgage Backed Securities (RMBS).....	2.660	47%
Senior unsecured	2.431	43%
	5.664	100%

Source: Company information.

Own issues – breakdown by maturity	As of 31 December 2017	
	in € million	
	(unaudited)	
< 1 year	493	
1–5 years.....	2.458	
> 5 years	2.713	

Source: Company information.

5.4 Capital position and requirements

Based on the Supervisory Review and Evaluation Process ("SREP") for 2018, BAWAG Group received a Pillar 2 requirement of 2.25% and a Pillar 2 guidance of 1.0% with both to be fulfilled by CET 1 capital from 1 January 2018. This is slightly higher than the requirements imposed for 2017. Consequently, BAWAG Group's consolidated CET 1 ratio (transitional) requirement amounts to 9.691% for 2018 (10.691% including Pillar 2 guidance). This is the sum of 4.5% Pillar 1 requirement plus 2.25% Pillar 2 requirement and 2.9408% combined buffer requirement on a transitional basis. The combined buffer requirement of 2.9508% is the sum of 1.875% capital conservation buffer plus 1.0% systemic risk buffer and 0.0658% countercyclical buffer (derived from the variable requirements in the various countries and based on the risk-weighted asset figures for 2017). In 2019 the combined buffer requirement is expected to increase to approx. 3.6135% CET 1 capital (assuming all currently implemented buffers increase at the announced levels). A breach of the combined buffer requirement would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments.

As at 31 December 2017, BAWAG Regulatory Group's CET 1 ratio (transitional/fully loaded) was 13.53/13.49%. The BAWAG Regulatory Group is committed to a strong capital position and intends to steer its CET 1 ratio (fully loaded) going forward towards at least 12%.

BAWAG Regulatory Group's consolidated Tier 1 ratio requirement for 2018 amounts to 11.191% and the consolidated own funds requirement to 13.191%. In that context, any shortfall in Pillar 1 and Pillar 2 requirement components which would otherwise be made up of AT 1 capital or T2 capital up to their respective limits would have to be met with CET 1 capital for an AT 1 capital shortfall and CET 1 capital or AT 1 capital for a T2 capital shortfall in order to avoid a breach of the Maximum Distributable Amount.

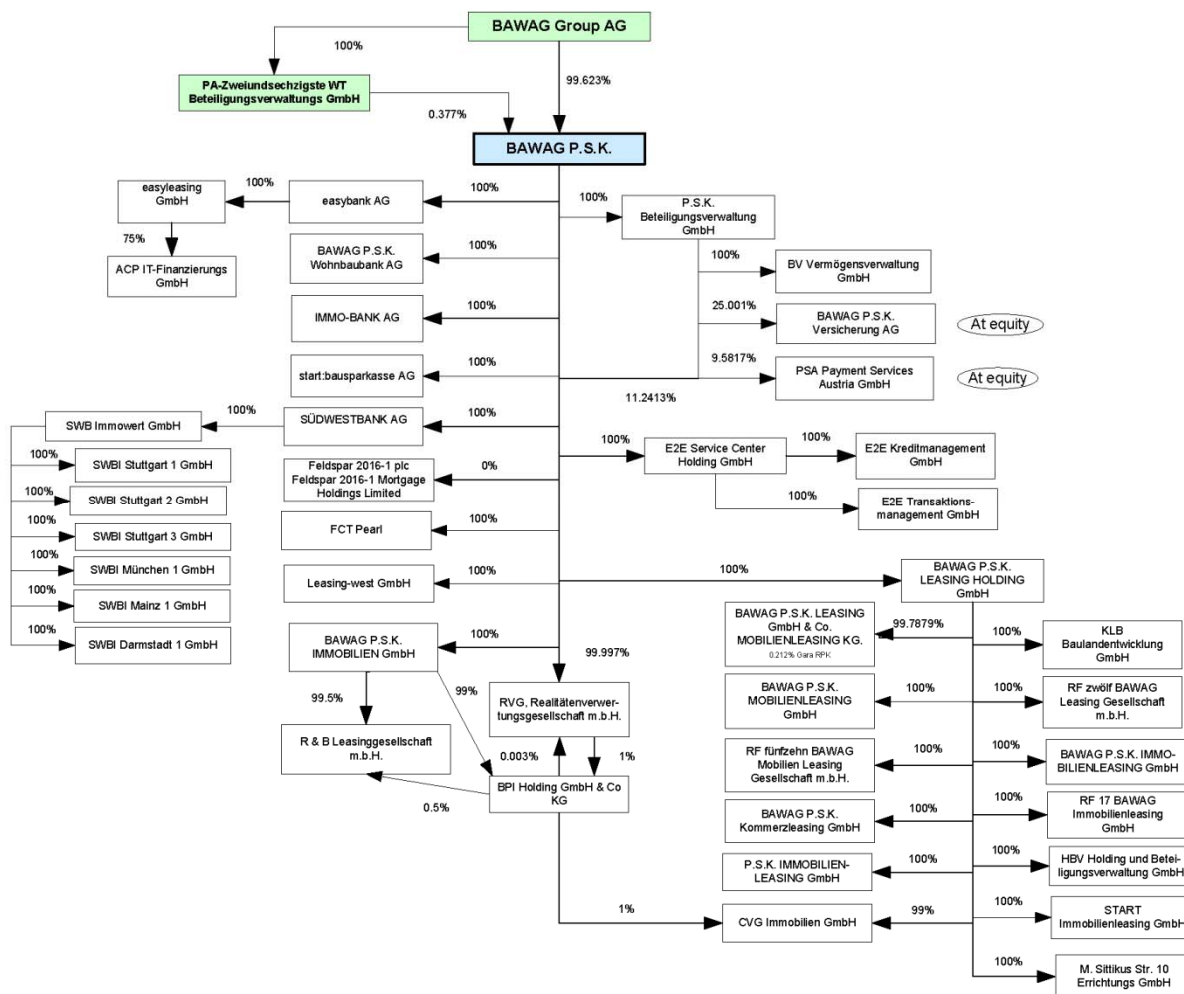
As at 31 December 2017, BAWAG Regulatory Group's Tier 1 ratio (transitional/fully loaded) was 13.53/13.49% and its Total Capital ratio (transitional/fully loaded) was 15.26/15.20%. For the Maximum Distributable Amount calculation, the applicable Pillar 1 and Pillar 2 requirements and the combined buffer requirements are taken into account but not the Pillar 2 guidance. The Maximum Distributable Amount restriction level for the BAWAG Regulatory Group is at approximately 11.47% (Maximum Distributable Amount restriction level calculation based on 2018 requirement) as parts of the Tier 1 and Tier 2 requirements currently have to be covered by CET 1 capital. Consequently, as of 31 December 2017, the buffer to Maximum Distributable Amount restriction level is 2.1% (or EUR 0.4 billion). Based on BAWAG Regulatory Group's CET 1 ratio (transitional) of 13.53% as at 31 December 2017 and its consolidated CET 1 ratio (transitional) requirement of 9.691% for 2018, the buffer to the Maximum Distributable Amount restriction level would be approximately 3.8% (or EUR 0.8 billion) assuming that (i) Additional Tier 1 requirements would be fully met by AT1 Instruments and (ii) Tier 2 requirements would be fully met by Tier 2 Instruments. The Issuer presently expects that in 2019 the buffer to the Maximum Distributable Amount restriction level will be 3.0% (or EUR 0.6 billion) which is based on the key assumptions that BAWAG Regulatory Group's (i) CET 1 ratio (fully loaded) remains at 13.49%, (ii) Additional Tier 1 requirements will no longer be fully covered by CET 1 capital and (iii) Tier 2 requirements will no longer be partially covered by CET 1 capital.

Available Distributable Items of the Company as at 31 December 2017 amounted to EUR 2,852 million. This figure is based on audited UGB/BWG (local Austrian accounting standard) accounts.

When making distributions (including distributions on the Notes) from Available Distributable Items, if any, the Issuer presently intends to give due consideration to the capital hierarchy and to preserve the seniority of claims. However, the Issuer may, at its full discretion, cancel payments in respect of the Notes at any time even if sufficient Available Distributable Items are available and despite the Issuer making payments on claims that rank pari passu or even junior to the claims under the Notes (see "2.2.6 The Issuer may, at its full discretion, cancel payments of distributions on the Notes. The cancellation of distribution payments will be definitive and non-cumulative."). Furthermore, no assurance can be made as to, and investors should not rely on, the availability of Available Distributable Items in the future.

5.5 Structure of BAWAG Group

The following chart provides an overview of all fully consolidated direct and indirect subsidiaries of the Company (unless marked as consolidated "at equity") as of the date of this Prospectus in accordance with the IFRS accounting framework:



Source: Company information.

The following table lists all of the Company's fully consolidated subsidiaries and associates accounted for using the equity method in its IFRS financial statements as of 31 December 2017:

List of consolidated subsidiaries

Banks

BAWAG P.S.K. AG, Vienna	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	100.00%
easybank AG, Vienna	100.00%
IMMO-BANK Aktiengesellschaft, Vienna	100.00%
start:bausparkasse AG, Vienna	100.00%
SÜDWESTBANK AG, Stuttgart	100.00%

Real estate

BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	100.00%
BPI Holding GmbH & Co KG., Vienna	100.00%

List of consolidated subsidiaries

R & B Leasinggesellschaft m.b.H., Vienna	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna.....	100.00%
SWB Immowert GmbH, Stuttgart	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	100.00%
SWBI Stuttgart 2 GmbH, Stuttgart	100.00%
SWBI Stuttgart 3 GmbH, Stuttgart	100.00%
SWBI München 1 GmbH, Stuttgart	100.00%
SWBI Mainz 1 GmbH, Stuttgart	100.00%
SWBI Darmstadt 1 GmbH, Stuttgart	100.00%
Leasing	
ACP IT-Finanzierungs GmbH, Vienna.....	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna (formerly: BAWAG P.S.K. LEASING GmbH)	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	100.00%
CVG Immobilien GmbH, Vienna	100.00%
easyleasing GmbH, Vienna (formerly: VB Leasing Finanzierungsgesellschaft m.b.H.)	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna.....	100.00%
KLB Baulandentwicklung GmbH, Vienna.....	100.00%
Leasing-west GmbH, Kiefersfelden	100.00%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%
RF 17 BAWAG Immobilienleasing GmbH, Vienna	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%
START Immobilienleasing GmbH, Vienna.....	100.00%
Other non credit institutions	
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna.....	25.00% ¹⁾
BV Vermögensverwaltung GmbH, Vienna.....	100.00%
E2E Kreditmanagement GmbH, Vienna	100.00%
E2E Service Center Holding GmbH, Vienna.....	100.00%
E2E Transaktionsmanagement GmbH, Vienna	100.00%
FCT Pearl, Pantin	100.00%
Feldspar 2016-1 Mortgage Holding Limited, London ²⁾	0.00%
Feldspar 2016-1 PLC, London ²⁾	0.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	100.00%
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH, Vienna.....	100.00%
PSA Payment Services Austria GmbH, Vienna	20.82% ¹⁾
P.S.K. Beteiligungsverwaltung GmbH, Vienna	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	100.00%

¹⁾ These subsidiaries are consolidated using the equity method.

²⁾ These entities are vehicles which BAWAG Group uses to conduct certain operations aimed at ensuring its funding and refinancing. BAWAG Group does not hold any of the shares in these entities. However, due to contractual arrangements it exercises complete control over these entities' operations. Therefore, in accordance with IFRS 10, BAWAG Group must consolidate these entities.

Source: Company information.

Dependencies from other entities within BAWAG Group

BAWAG Group is dependent from valuations of and dividends from its subsidiaries. BAWAG Group is further dependent from outsourced operations, in particular in the areas of back-office activities as well as IT.

5.6 Trend Information

5.6.1 Statement of No Material Adverse Change

There have been no material adverse changes in the prospects of BAWAG Group since 31 December 2017.

5.6.2 Recent developments and Outlook

Change in shareholder structure

On 21 February 2018, BAWAG Group AG was informed that, with effectiveness as of 20 February 2018, certain of the Cerberus Shareholders were merged with each other. These mergers did not affect the aggregate shareholding of the Cerberus Shareholders (see "5.8 Major Shareholders").

HSH Nordbank

BAWAG Group participated in a consortium to acquire 100% of the shares in HSH Nordbank AG, Hamburg, with a 2.5% stake. The share purchase agreement was signed on 28 February 2018. The closing of the transaction is subject to regulatory approvals being granted.

Separation agreement with Austrian Post

Following termination of the cooperation agreement between BAWAG P.S.K. and Austrian Post by BAWAG P.S.K., the existing cooperation agreement has been replaced by a separation agreement entered into on 21 February 2018. The separation agreement governs the cooperation between BAWAG P.S.K. and Austrian Post for the remainder of its term.

Outlook

Based on the performance of BAWAG Group over previous years and the positive development of profits before tax (in particular driven by an increase of net interest income) in 2017, BAWAG Group continues to aim for further growth in the coming years.

More specifically, BAWAG Group strives to grow its profit before tax over the coming years at a compound annual growth rate of more than 5% and achieve a profit before tax of more than EUR 600 million in 2020. The acquisitions of Südwestbank and PayLife (both closed in the fourth quarter 2017) will contribute to the expected growth. Moreover, BAWAG Group will invest in organic growth and pursue earnings-accretive M&A opportunities whose expected return profiles are consistent with the BAWAG Group targets.

Maintaining a strong focus on cost efficiency, BAWAG Group targets a Cost-Income Ratio of below 40% in the midterm. Over the same period, BAWAG Group aims to maintain its RoTE (@12% CET 1) in a range of 15% to 20% and maintain its CET 1 ratio (fully loaded) of at least 12%. Furthermore, BAWAG Group targets a total excess capital accretion (i.e. above 12% CET 1) of greater than EUR 2 billion through 2020. The financial impact of the issuance of the Notes is already fully reflected in the BAWAG Group targets.

It should be noted that BAWAG Group's targets do not constitute forecasts or projections, and in no event BAWAG Group may be held responsible if the targets referred to herein are not met. Even if future results of BAWAG Group meet the targets expressed herein, they may not be indicative of the results of any succeeding periods.

5.6.3 Profit forecasts or estimates

Not applicable. This Prospectus does not contain profit forecasts or estimates

5.7 Administrative, Management and Supervisory Bodies

In accordance with Austrian law, the Company has a two-tier board structure comprising of the management board ("**Management Board**") and the supervisory board ("**Supervisory Board**"). The Management Board is responsible for the executive management and represents the Company vis-à-vis third parties. The Supervisory Board is responsible for supervising the management and internal controls of the Company. Members of the Management Board are appointed by the Supervisory Board. Members of the Supervisory Board are elected by the shareholders' meeting or delegated by shareholders afforded such a delegation right in the Articles of Association. Under Austrian co-determination rules, a stock corporation's works council has the right to delegate one works council representative to the Supervisory Board for every two shareholders' representatives at the Supervisory Board. The corporate bodies of the Company are bound in particular by the Articles of Association, the rules of procedure for the Management Board (*Geschäftsordnung für den Vorstand*), the rules of procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*) (each as adopted by the Supervisory Board) and the Austrian Corporate Governance Code.

The following is a summary of the most important provisions of the Company's corporate legal framework.

5.7.1 Members of the administrative, management and supervisory bodies of the Company

The members of the Management Board and Supervisory Board may be contacted at the Company's business address at Wiesingerstraße 4, 1010 Vienna, Austria.

5.7.1.1 Current Members of the Management Board

The following table lists the positions of the members of the Management Board of the Company, the year they were first appointed and the expiration of their current term:

Name	Position	Year first appointed	End of Current Term
Anas Abuzaakouk	Chief Executive Officer	2017	2021
Enver Sirucic.....	Chief Financial Officer	2017	2021
Stefan Barth	Chief Risk Officer	2017	2021
David O'Leary	BAWAG P.S.K. Retail	2017	2021
Andrew Wise.....	Chief Investment Officer Non-retail lending	2017	2021
Sat Shah	Chief Operating Officer (Company) Chief Executive Officer (easygroup)	2017	2021

Source: Company information.

5.7.1.2 Current members of the Supervisory Board

The following table lists the positions of the current members of the Supervisory Board of the Company and in each case the year they were first appointed as members of the Supervisory Board of the Company and the expiration of their current term, to the extent applicable:

Name	Position	Year first appointed	End of Current Term
Pieter Korteweg	Chairperson ¹⁾	2017	n/a
Christopher Brody.....	First Deputy Chairperson	2017	2018
Egbert Fleischer.....	Second Deputy Chairperson	2017	2018
Frederick Haddad	Member ²⁾	2017	n/a
Kim Fennebresque.....	Member	2017	2018
Adam Rosmarin	Member	2017	2018
Beatrix Pröll.....	Member ³⁾	2017	n/a
Verena Spitz	Member ³⁾	2017	n/a
Ingrid Streibel-Zarfl	Member ³⁾	2017	n/a

¹⁾ Delegated by the Cerberus Shareholders (cf. "5.7.2.2 Administrative, management and supervisory bodies' potential conflicts of interest" and "5.8 Major Shareholders").

²⁾ Delegated by the GoldenTree Shareholders (cf. "5.7.2.2 Administrative, management and supervisory bodies' potential conflicts of interest" and "5.8 Major Shareholders").

³⁾ Works council representative.

Source: Company information.

5.7.2 Certain Information on the Members of the Management Board and the Supervisory Board; Conflict of Interest

5.7.2.1 Activities Performed outside BAWAG Group

The following tables set forth the principal activities performed by the members of the Management Board and Supervisory Board outside BAWAG Group where these are significant with respect to the Company.

Members of the Management Board

Name	Name of the company	Activity performed
Enver Sirucic.....	Verband österreichischer Banken und Bankiers Einlagensicherung AUSTRIA Ges.m.b.H.	member of the management board member of the supervisory board
Stefan Barth.....	Österreichische Bankwissenschaftliche Gesellschaft	member of the management board
David O'Leary.....	Amundi Austria GmbH	member of the supervisory board

Members of the Supervisory Board

Name	Name of the company	Activity performed
Pieter Korteweg	AerCap Holdings N.V.	non-executive chairman of the board of directors
	Cerberus Global Investment Advisors LLC	chairman
	Cerberus Global Investments B.V.	supervisory director
Christopher Brody.....	Stillwater LLC	president and chief investment officer
	eMagin Corporation	member of the board of directors
	Caicos Resorts Limited	member of the board of directors
	C.R. Hotel Limited	member of the board of directors
Egbert Fleischer.....	Wiener Börse AG	member of the supervisory board
	CEESEG Aktiengesellschaft	member of the supervisory board
Frederick Haddad	ABANA	director
	GoldenTree Asset Management LP	partner, executive committee member and portfolio manager
Kim Fennebresque.....	Ally Financial Inc.	member of the board of directors
	Bluelinx Holdings	non-executive chairman of the board of directors
	Albertsons Companies Inc.	member of the board of directors
	Sonus Networks, Inc.	member of the board of directors

5.7.2.2 Administrative, management and supervisory bodies' potential conflicts of interest

On the date of this prospectus, the Supervisory Board of the Company comprises the same persons as the Supervisory board of BAWAG P.S.K. Although the participation in BAWAG P.S.K. is the Company's only holding, the interests of the Company and the interests of BAWAG P.S.K. may not always be fully aligned.

Other than set out below there are no arrangements or understandings with major shareholders of the Company, or with other persons, pursuant to which any member of the Company's Management Board or Supervisory Board was appointed a member of such corporate body.

The Risk and Credit Committee of BAWAG P.S.K. approved a mortgage loan in the amount of € 750,000 to Mr. Stefan Barth and his wife on 17 November 2015 at standard employee terms and conditions; as of 31 December 2017, approximately € 160,172 were drawn under the loan.

Mr. Pieter Korteweg, who is chairman of the Supervisory Board and the member of the Supervisory Board delegated by the Cerberus Shareholders (see "5.7 Major Shareholders"), is also chairman of Cerberus Global Advisors LLC, in which role he oversees the Cerberus businesses in the Netherlands, sources transactions and provides consulting advice relating to Cerberus portfolio investments, including BAWAG Group. Furthermore, Mr. Frederick Haddad, who is the member of the Supervisory Board delegated by the GoldenTree Shareholders (see "5.7 Major Shareholders"), is a partner, executive committee member and portfolio manager of GoldenTree Asset Management LP, in which role he oversees and manages certain GoldenTree portfolio investments, including BAWAG Group. The interests of the Company and BAWAG Group on the one hand and the interests of (i) the Cerberus Shareholders and Cerberus Global Advisors LLC and (ii) the GoldenTree Shareholders and GoldenTree Asset Management LP, respectively, on the other hand are not necessarily always aligned and may conflict in certain circumstances. It should be noted, however, that Supervisory Board members must not act in their own interests or in the interests of persons or enterprises with whom they have close relationship if those interests conflict with those of the enterprise or serves to attract businesses opportunities to such members that would otherwise have gone to the enterprise.

Except as described in this section, there are, to the best knowledge of the Company, no potential conflicts of interest of any members of the Management Board or the Supervisory Board.

There are no family ties between the members of the Management Board and the Supervisory Board. Except as described in this section, neither the Company nor any of its subsidiaries has granted a loan that is still outstanding to any members of the Supervisory Board or the Management Board.

5.8 Major Shareholders

Major shareholders of the Company are several funds and accounts under management of the investors Cerberus (the "Cerberus Shareholders") and GoldenTree (the "GoldenTree Shareholders"), respectively holding 35.1% and 25.7%, of the Company's total number of outstanding shares as at 28 February 2018. The Cerberus Shareholders and the Company as well as the GoldenTree Shareholders and the Company entered into two separate deconsolidation agreements (*Entherrensungsverträge*, each a "Deconsolidation Agreement"). In essence, under the Deconsolidation Agreements, the Cerberus Shareholders and the GoldenTree Shareholders undertake *vis-à-vis* the Company to a level of self-restraint regarding the use of their voting rights in the Company in order to ensure that they will not be able to carry a vote on their own in respect to the election and dismissal of supervisory board members, any vote of non-confidence (*Misstrauensvotum*) and management matters (*Geschäftsführungsmaßnahmen*) that are brought before the shareholders' meeting of the Company.

The following table shows the Company's major shareholders as at 28 February 2018:

Major Shareholders	Shareholding in %
Cerberus Shareholders	35.1
<i>Promontoria Holding 212 B.V.</i>	12.9
<i>Promontoria Holding 213 B.V.</i>	11.1
<i>Promontoria Holding 215 B.V.</i>	11.1
GoldenTree Shareholders	25.7
<i>GoldenTree HoldCo Lux 1 S.à r.l.</i>	6.3
<i>GoldenTree HoldCo Lux 2 S.à r.l.</i>	5.6
<i>GoldenTree HoldCo Lux 3 S.à r.l.</i>	4.8
<i>GoldenTree Asset Management Dutch BV.</i>	5.8
<i>GN3 SIP LP</i>	2.6
<i>Stichting PGGM Depositary</i>	0.6

Source: This information is based on the most recent major shareholder notifications indicating a shareholding above the initial notification threshold of 4% the Issuer has published pursuant to § 135(2) of the Austrian Stock Exchange Act 2018 (*Börsegesetz 2018 – BörseG 2018*) or the relevant preceding law. According to § 130(1) sentence 1 of the Austrian Stock Exchange Act 2018, if natural persons or legal entities (irrespective of whether domestic or foreign), directly or indirectly, acquire or sell shares in a stock corporation for which Austria is the home member state and the shares of which are listed on the Official Market or the Second Regulated Market of the Vienna Stock Exchange, then these persons or entities are obliged to notify the FMA, the Vienna Stock Exchange as well as the Company within two trading days after the acquisition or disposal of a major shareholding, provided that the proportion of the voting rights held reaches, exceeds or falls below a threshold of 4%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 75% or 90%, respectively, as a consequence of the acquisition or disposal. The articles of association of a listed company can lower the reporting threshold to 3%. However, the Articles of Association of the Company do not provide for such reduced threshold. The notification period commences when the shareholder of a major shareholding gains, or should have gained, knowledge of the acquisition or sale. § 133 of the Austrian Stock Exchange Act 2018 sets out certain cases in which voting rights are attributed to another person or entity.

At the date of this Prospectus, there are no arrangements, known to BAWAG Group, the operation of which may at a subsequent date result in a change in control of BAWAG Group.

5.9 Legal and Arbitration Proceedings

BAWAG Group is involved in legal and administrative proceedings as part of its ordinary business activities. Such proceedings in particular include lawsuits with customers and consumer protection associations such as the Chamber of Labour and the Consumer Information Association. Similar disputes and proceedings will likely also arise in the future.

It is impossible to reliably determine or predict the outcome of proceedings pending or threatened. Other than the proceedings described below, during a period covering the previous twelve months, no legal or administrative proceedings (including any proceedings which are pending or threatened of which the Company is aware) may have or have had in the recent past significant effects on the Company's financial position or profitability.

The following is a description of the most significant proceedings in which BAWAG Group is currently involved:

5.9.1 Litigation with the City of Linz

On 12 February 2007, BAWAG P.S.K. entered into a resettable CHF linked swap agreement with the City of Linz based on the Austrian framework agreement for derivatives transactions. The swap was based on a nominal value of CHF 195 million. This corresponded to the nominal value of a CHF bond that the City of Linz had issued. The swap had a term of ten years. While the swap originally resulted in payments from BAWAG P.S.K. to the City of Linz, after the financial market crisis in 2008 and the appreciation of the CHF against the euro, the City of Linz was required to make payments to BAWAG P.S.K.

In October 2011, the City of Linz refused to make further payments. Consequently BAWAG P.S.K. terminated the swap agreement. In November 2011, the City of Linz sued BAWAG P.S.K. asserting that the swap agreement was void alleging that the resolutions adopted by the city council did not cover such a transaction and an approval by the Austrian province of Upper Austria (*Oberösterreich*) would have been required. The City of Linz sought payment of CHF 30.6 million (equalling approximately € 24.2 million for the purposes of the court procedure) plus interest and costs. BAWAG P.S.K. rejects these claims and has filed a counter-claim seeking payment of € 417.7 million plus interest and costs. For reasons of utmost precaution, this receivable has been written down to a carrying value of approximately € 254 million in the financial year 2011 and is reported in the Corporate Center segment (risk-weighted assets ("**RWA**"): € 254 million). BAWAG P.S.K. bases its claim on costs related to the termination of the swap transaction (€ 397.7 million) and an outstanding payment due under the swap transaction (€ 20 million). The court proceedings are still pending in the first instance. While the judge originally had assumed that the swap agreement is valid, now after having obtained an expert opinion, informed the parties that such validity cannot necessarily be assumed and requested a supplementary expert opinion. The experts submitted the supplementary opinion to the court on 29 December 2017 and the court set a deadline for comments by the parties by 9 April 2018. A final decision in the first instance is expected at the earliest in 2019. Appeals will be possible to the court of appeals and potentially also to the Austrian Supreme Court (*Oberster Gerichtshof*).

Were the court to hold that the swap transaction was void, BAWAG P.S.K. could be obligated to pay the claimed amount to the City of Linz in full or in part, and BAWAG P.S.K. may not be awarded, in full or in part, the payment sought and would then be required to write-down its claims further. In addition, even if the court holds that the swap transaction was valid, BAWAG P.S.K. may still not be awarded, in full or in part, the payment sought, in which case it may be required to write-down its claims further. Finally, depending on the outcome of the proceedings, BAWAG P.S.K. may be required under statutory law to bear some or all of the court and legal fees of the City of Linz. As of 31 December 2016, BAWAG P.S.K. had incurred total legal fees of € 27 million in connection with the proceedings.

5.9.2 Proceedings in Austrian Courts relating to ALPINE

BAWAG P.S.K. was joint lead manager or co-lead manager for bonds issued by ALPINE Holding GmbH from 2010 to 2012. In July 2013, insolvency proceedings were opened regarding this corporate issuer. Several claims have been filed against the banks involved in the issuance and the distribution of ALPINE bonds, among them BAWAG P.S.K. Generally, these claims allege either erroneous investment advice or prospectus liability (or both). Following an internal assessment of the claims based on erroneous investment advice, BAWAG Group identified and consequently settled a limited number of cases that it believed were well founded. The remaining claims currently filed against BAWAG Group amount to approximately € 28.5 million which are (also) based on prospectus liability and in certain cases (amounting to an aggregate volume of € 12 million in dispute) are also grounded on allegedly erroneous investment advice.

In order to assess whether the prospectus liability claims against BAWAG Group as well as other involved banks are well founded, the competent court appointed an expert in April 2015. The expert opinion was originally scheduled to be submitted in March 2018 but has been delayed due to a dispute regarding the expert's impartiality. Since numerous witnesses are expected to be heard by the court and since the expert and no court hearings have been scheduled as of the date of this Prospectus, there is no set date for presentation of the expert's opinion. The expert regularly updates the parties to the proceedings on her findings. Based on the information shared to date, BAWAG Group believes that there is no substantiated indication that there will be a basis for a prospectus liability claim, while the outcome of the proceedings – which are still pending in the first instance – is not conclusively predictable. Furthermore, in May 2017, the public prosecutor's office denied continuation of the prosecution and investigation against unidentified members of the lead arrangers (*Anzeige gegen Unbekannt*) for criminal wrongdoing relating to the issuance of the bonds of ALPINE Holding GmbH. Following such decision, several investors had filed a request for the continuation of the investigations. On 24 January 2018, the regional court for criminal matters of Vienna (*Landesgericht für Strafsachen Wien*) dismissed such request and the decision of the public prosecutor's office is now final. In its reasoned statement, the public prosecutor held that there was no indication that members of the lead arrangers committed any unlawful acts in connection with the issuance or the distribution of the bonds of ALPINE Holding GmbH. However, it cannot be excluded that the civil law courts may find in favour of the claimants and order BAWAG P.S.K. to pay the entire amount claimed to the bond investors.

On the other hand, BAWAG Group and other banks sued Austria to enforce guarantees which Austria had granted under the Act on the Strengthening of Company Liability (*Unternehmensliquiditätsstärkungsgesetz – "ULSG"*) with respect to certain repayment claims of these banks against the ALPINE Group. The ULSG was adopted after the financial crisis and allowed Austria to guarantee the repayment of loans which credit institutions granted to Austrian companies. Such guarantees were also provided for repayment claims under loans that were granted by BAWAG P.S.K. to ALPINE Group. After the insolvency of ALPINE Bau GmbH, Austria argued that the guarantees were invalid because ALPINE did not fulfil the application

requirements pursuant to the ULSG since ALPINE was insolvent at the time when the loans were granted. The claims BAWAG Group asserts against Austria amount to approximately € 19 million. The guarantee claims are sued for by the banks in two separate legal proceedings. On 18 August 2017 BAWAG Group and the other banks obtained a favourable judgment from the court of first instance (*Handelsgericht Wien*) in the legal proceedings referred to as "ULSG II" obliging Austria to pay to BAWAG Group an amount equal to € 7.5 million (plus default interest). On 26 February 2018, the court of appeals (*Oberlandesgericht Wien*) repealed the judgement and remitted the case to the court of first instance for judgement after a supplementary taking of evidence.

In the event that the court-appointed expert in the ALPINE investor litigation cases concludes that the prospectus liability claims were well founded and/or that the banks knew, or should have known, about the unsound financial situation of the ALPINE Group, this may also negatively impact the cases against Austria, which could force BAWAG Group to write-off the repayment claim of approximately € 19 million. However, the competent court in the proceedings against Austria also appointed an expert, who has to analyse, whether ALPINE fulfilled the relevant guarantee application requirements.

5.9.3 Administrative Proceedings regarding the Austrian Act on Consumer Payments Accounts

The Austrian Act on Consumer Payment Accounts (*Bundesgesetz über die Vergleichbarkeit von Entgelten für Verbraucherzahlungskonten, den Wechsel von Verbraucherzahlungskonten und den Zugang zu Verbraucherzahlungskonten mit grundlegenden Funktionen – "VZKG"*), which came into force on 18 September 2016, grants consumers, *inter alia*, the following rights: If a customer requests to switch an account to another bank, the required data must be provided to the other bank within 5 business days upon receipt of the request. Further, customers, who do not have a payments account, are entitled to a basic account (*Basiskonto*). If a bank declines the opening of such an account, this has to be done in writing.

Due to an unexpected overload of requests for the switching of accounts to other banks, such requests could not be processed smoothly by BAWAG P.S.K. in some instances, resulting in delays, which led to customer complaints. These delays were caused by communication problems with other banks; in particular as there is no fully automated process in place and each bank uses its own application forms for the opening/switching of payments accounts, technical issues and the high number of requests shortly after the introduction of the new regulation.

FMA imposed administrative fines on five members of the management board and four division heads of BAWAG P.S.K. of in a total € 460,000. Under applicable statutory law, BAWAG P.S.K. could be held responsible for the payment of the fines.

Appeals were filed on the basis that (i) the relevant persons met their supervisory duties and did not act negligently, (ii) the fines were inappropriately high, in particular exceeded fines awarded in comparable cases, (iii) different persons were fined for the same (alleged) error, and (iv) FMA did not consider mitigating aspects, for example relevant persons have no previous convictions and no damages to customers resulted from the violations. The appeals are currently pending with the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*).

5.9.4 On-site Inspection by the ECB in relation to the International Retail Mortgage Loan Portfolios and the International Business Segment

In the first quarter of 2017, BAWAG Regulatory Group was subject to an on-site inspection requested by the ECB with respect to the treatment and management of credit risk in certain business areas, in particular two international retail mortgage loan portfolios (a U.K. residential mortgage loan portfolio acquired in December 2015 and a French residential mortgage loan portfolio acquired in December 2016 through a French securitization vehicle). Furthermore, the organisational framework, policies and procedures and the credit risk management in these areas were evaluated and an analysis of risk-based samples of relevant credit files was conducted. According to the ECB's findings which were finalised in September 2017, the on-site inspection identified a number of shortcomings in the areas investigated, having a material impact on BAWAG Regulatory Group's risk-weighted asset levels and own funds ratio. The implementation of the required changes to address the identified shortcomings and to meet the requirements imposed on BAWAG Regulatory Group, included, for example, a reclassification of the individual customers in the U.K. mortgage loan portfolio and the taking out of a global insurance policy for such portfolio; these measures have involved and may continue to involve financial and other resources. In addition, the adopted reclassifications have resulted in adjustments to the reported risk-weighted asset level of both portfolios.

In the event that sanctions based on Austrian law were to be imposed in view of the breach of the large exposure limit referred to in the on-site inspection report with respect to the period from the acquisition of the French mortgage loan portfolio in December 2016 until 14 September 2017, BAWAG Group anticipates that any potential fines would not exceed a € million figure in the high teens. As a consequence, BAWAG Group has set aside reserves in this range for this risk in its consolidated accounts. Considering also tax effects associated with the payment of such fines, the BAWAG Group expects the impact from such fines (if imposed) on BAWAG Group's profits after tax not to exceed a € million figure in the low teens.

Save as disclosed in this section and "5.9 Legal and Arbitration Proceedings" and based on the Issuer's and BAWAG Group's current assessment of the facts and legal implication, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months prior to the date of this Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer or BAWAG Group.

5.10 Significant Change in the Financial Position of the Group

No significant change in the financial position of BAWAG Group has occurred since 31 December 2017.

5.11 Material Contracts

In the ordinary course of its business, members of BAWAG Group enter into a variety of contracts with various other entities. Within the past two years, BAWAG Group has not, however, entered into any material contracts outside the ordinary course of its business which could result in any group member being under an obligation or entitlement that has a material adverse impact on the Issuer's ability to meet its obligations under the Notes.

6 REGULATION AND SUPERVISION

6.1 Introduction

The operations of BAWAG Group throughout Europe are regulated and supervised by the relevant authorities in each of the jurisdictions where it conducts business. Such regulation relates to licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organisational and reporting requirements. It affects the type and scope of the business BAWAG Group conducts in a country and how it structures specific operations.

In reaction to the crisis in the financial markets, the regulatory environment has undergone and is still undergoing significant changes. In response to the global financial crisis and the European sovereign debt crisis and in an effort to establish a European banking union and strengthen the resilience of the European banking sector, the EU and the Austrian legislature have adopted (or still draft or negotiate) a number of legal acts to increase regulatory requirements for EU banks which directly affects and will affect the Issuer, its subsidiaries and BAWAG Group as a whole.

On 4 November 2014, the SSM has been established within the eurozone as a first major pillar of the European banking union and primary prudential supervisory has moved from the national competent authorities such as the FMA and the BaFin to the ECB. Since then, the ECB directly supervises significant credit institutions and significant groups of credit institutions under a parent institution or a parent financial holding company in the eurozone, including BAWAG Group, while overseeing the supervision by national supervisors of less significant institutions and groups. The SSM and the supervision by the ECB are based on Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks to the ECB concerning policies relating to the prudential supervision of credit institutions (the Single Supervisory Mechanism Regulation or "**SSM Regulation**").

In the following, relevant legislation and supervisory activities are summarised and grouped around licensing and supervision, capital requirements, bank resolution, tax and market infrastructure. None of the following shall represent a complete presentation of legislative developments in the EU, Austria or any other relevant jurisdiction in which BAWAG Group is active.

6.2 Overview: Regulation and Supervision of BAWAG Group

6.2.1 Licenses and Competent Supervisory Authorities

Six subsidiaries of the Issuer, namely BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK, start:bausparkasse and Südwestbank, are authorised to conduct banking business as set forth in the BWG, or, in the case of Südwestbank, the applicable German banking regulations, and qualify as credit institutions for purposes of the BWG and the CRR. Together with the Issuer which qualifies as a financial holding company, these six banks are subject to comprehensive regulation and supervision by the ECB, the FMA and, in the case of Südwestbank which is operating under a German banking license, BaFin.

As a "significant" group of institutions under a parent financial holding company in the eurozone for purposes of the SSM Regulation, BAWAG Regulatory Group is directly supervised by the ECB. Supervisory powers of the ECB extend to the Issuer as the ultimate parent financial holding company of BAWAG Regulatory Group and its six banking subsidiaries: (i) BAWAG P.S.K., (ii) easybank, (iii) Wohnbaubank, (iv) IMMO-BANK, (v) start:bausparkasse and (vi) Südwestbank. The ECB is responsible and competent for most tasks of prudential supervision, in particular the authorisation and the withdrawal of authorisations of credit institutions, the assessment of persons that intend to acquire qualifying holdings in credit institutions and ensuring compliance by credit institutions with prudential requirements in the areas of own funds, capital requirements, large exposure limits, liquidity, leverage, reporting, internal governance and control arrangements, risk management, remuneration policies and practices and internal capital adequacy assessment processes.

The FMA is the principal supervisor of BAWAG Regulatory Group for all regulatory matters to the extent not supervised by the ECB. These include the rules on organisational aspects and business conduct when providing investment services, the regulation of payment services, anti-money laundering and the prevention of terrorist financing, as well as certain special areas of banking regulation, such as those related to the issuance of covered bonds (*Pfandbriefe, Kommunalschuldverschreibungen, fundierte Bankschuldverschreibungen*) and the supervision of Austrian building societies (*Bausparkassen*). In addition, the FMA also participates in the Joint Supervisory Team established by the ECB for the supervision of BAWAG Regulatory Group. As a result, the FMA still plays a significant role in the regulation and supervision of BAWAG Regulatory Group.

The ECB and the FMA have extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, to impose monetary and other sanctions, to request the replacement of members of a bank's management or supervisory board, or to withdraw the license of a bank.

6.2.2 Consolidated Supervision

Supervision by the ECB and the FMA is not restricted to individual credit institutions on a solo basis, but extends, on a consolidated basis, also to all credit institutions and other relevant entities (such as financial institutions, asset management companies and ancillary services undertakings) that are subsidiaries of the same parent institution or parent financial holding

company in the EU. The Issuer qualifies as a parent financial holding company in a member state as well as an EU parent financial holding company within the meaning of the CRR. The Issuer, its six banking subsidiaries BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK, start:bausparkasse and Südwestbank, as well as certain other subsidiaries form a regulatory banking group within the meaning of § 30 BWG (*Kreditinstitutsgruppe*) which is subject to consolidated supervision by the ECB and the FMA (in this Prospectus, the BAWAG Regulatory Group). The Issuer is not subject to prudential banking regulation and supervision itself. Pursuant to § 30(5) and (6) BWG, BAWAG P.S.K. must comply with prudential banking regulations on a consolidated basis. Supervision on a consolidated basis at the level of the BAWAG Regulatory Group captures capital requirements, limitations on large exposure, liquidity, organisational and risk management requirements and public disclosure obligations.

BAWAG Regulatory Group makes use of the waiver option under Article 113 para. 6 CRR which allows assigning a risk weight of 0% to certain intragroup risk exposures for the purposes of calculating credit risk and large exposures. Furthermore, BAWAG Group makes use of the waiver option under Article 425 para. 1 CRR pursuant to which liquidity inflows from deposits may be exempted from the relevant limits when such deposits have been placed by a parent or subsidiary institution of the relevant credit institution, i.e. where the deposits stem from other group companies.

As part of a CRD IV/CRR reform package dated 23 November 2016 (see risk factors "*2.1.2.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of BAWAG Group.*", "*2.1.2.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect the profitability of BAWAG Group.*" and "*2.1.2.5 The Issuer, as a financial holding company which is currently indirectly subject to consolidated supervision, may become subject to direct and more stringent supervision in the future.*" above), the European Commission proposes to amend these regulations to subject financial holding companies to direct supervision and to require approval by the competent authority to operate a banking group with a financial holding company as parent company.

6.2.3 Banking Legislation

On 27 June 2013, the CRD IV/CRR package was published in the Official Journal of the EU. By way of the CRD IV/CRR package, the EU sought to implement Basel III. It was also a fundamental step to achieve the "single rule book", a single set of harmonised prudential rules to achieve a unified regulatory framework for the EU financial sector that would complete the single market in financial services.

The majority of provisions of the CRR, as a European regulation directly applicable in all EU member states, as well as the amendments to the BWG implementing the CRD IV into Austrian law, entered into force on 1 January 2014 and replaced the previous regulatory framework. The CRR now sets out the supervisory requirements applicable to BAWAG Regulatory Group relating to the quality of own funds, capital requirements for certain risks (such as credit risk, counterparty credit risk, market risk and operational risk), monitoring and control of large exposures, leverage, liquidity, securitisations, public disclosure and central aspects of consolidated supervision. Certain other requirements applicable to BAWAG Regulatory Group, including those with respect to capital buffers, organisational aspects and risk management requirements are set forth in the BWG and certain additional Austrian regulations as well as guidelines (circulars and minimum standards) issued by the FMA. For the Issuer's German subsidiaries, German banking rules and regulations as well as guidance issued by BaFin must be complied with.

start:bausparkasse is a building savings association (*Bausparkasse*) regulated by the Austrian Federal Act on building savings associations (*Bausparkassengesetz – "BSpG"*). Its business activities are limited to deposit taking, extending home building loans and conducting certain related banking business. Furthermore, the BSpG imposes additional regulations on the use and safeguarding of deposits.

On 23 November 2016, and following a broader review of the rules currently in place, the European Commission published a proposal to amend the CRD IV/CRR package, the SRM Regulation and the BRRD. As part of this proposal, a binding leverage ratio of 3% of Tier 1 capital is proposed in order to prevent institutions from excessively increasing their leverage. In addition, it is proposed that institutions will be required to meet, amongst others, a binding NSFR, more risk-sensitive capital requirements for counterparty credit risk, market risk and exposures to central counterparties and tighter regulation of large exposures. With regard to the recovery and resolution framework, the European Commission proposes, inter alia, to implement the FSB's new standard on a TLAC applying to global systemically important banks and to change the ranking of unsecured debt instruments in the insolvency hierarchy. These proposals are now subject to the EU co-decision process and will likely be subject to further changes over the coming months. While BAWAG Regulatory Group does not qualify as a global systemically important banking group subject to TLAC requirements, this may also impact the MREL requirements applicable to BAWAG Regulatory Group in the future.

6.2.4 Legislation governing investment services

The provision of investment services by some of the credit institutions of BAWAG Group to their clients currently is governed by the Austrian Securities Supervision Act 2018 (*Wertpapieraufsichtsgesetz 2018*). The Austrian Securities Supervision Act contains, among other things, organisational requirements as well as conduct of business rules that must be met when receiving, transmitting and/or executing client orders in relation to securities and other financial instruments, proprietary trading, providing underwriting and other issuance-related services, managing client portfolios and providing investment advice.

6.2.5 Legislation governing the issuance of covered bonds

Covered bonds (*fundierte Bankschuldverschreibungen*) are bonds that are issued by banks in accordance with the provisions of the Covered Bonds of Banks Act (*Gesetz betreffend fundierte Bankschuldverschreibungen*). They have to be secured (covered) by a cover pool of assets which has to meet the requirements set out in the law and the articles of association of the issuing bank. A government commissioner must be appointed in the interest of the holders of the covered bonds. The issuing bank may not dispose of any asset in the cover pool without first obtaining the consent of the government commissioner. In the event that the issuer becomes insolvent, the holders of the covered bonds have a first claim on the respective cover pool. The cover pool may contain, among other things, claims and securities if they are suitable for the investment of money held in trust for a ward of court, mortgages, claims against and securities issued (or guaranteed) by certain public sector entities.

6.2.6 Level 2 and 3 legislation in the EU

Furthermore, banking regulation in Europe is to a large extent based on legislative acts and papers that have been issued at a European level with the purpose of implementing or complementing the rules contained in the CRR, the CRD IV and other so-called 'basic acts' and to ensure a consistent application of EU law by the competent supervisory authorities (so-called 'level 2 and 3 measures'). Among these acts are delegated and implementing regulations enacted by the European Commission (level 2) as well as regulatory and technical standards, guidelines, recommendations and questions and answers (Q&A) developed and issued by the European supervisory authorities, in particular the EBA and the ESMA (level 3).

6.2.7 Consumer Protection Legislation

There is no uniform legal framework as regards consumer protection law in Austria. However, the general provisions on consumer protection are governed by the Austrian Consumer Protection Act (*Bundesgesetz, mit dem Bestimmungen zum Schutz der Verbraucher getroffen werden – KSchG*). The Austrian Consumer Protection Act contains general mandatory requirements for contracts with customers that aim to ensure fair and balanced treatment that is adequate for consumers and protects the rights of consumers to withdraw from agreements under certain circumstances.

Furthermore, sector-specific provisions on consumer protection exist for credit institutions and certain types of contracts entered into by banks. Amongst others, the Austrian Act on Payment Services (*Bundesgesetz über die Erbringung von Zahlungsdiensten – ZaDiG*) implementing the EU Directive No 2015/2366 on Payment Services (known as 'PSD 2'), includes specific consumer protection provisions and information obligations towards consumers in relation to the provision of payment services.

In addition, the Austrian Act on Consumer Payment Accounts (*Bundesgesetz über die Vergleichbarkeit von Entgelten für Verbraucherzahlungskonten, den Wechsel von Verbraucherzahlungskonten und den Zugang zu Verbraucherzahlungskonten mit grundlegenden Funktionen – VZKG*) – based on the EU Directive No 2014/92 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features – inter alia provides for additional contractual transparency and information duties related to the costs of bank accounts, makes it easier for consumers to switch their payment accounts from one bank to the other and provides for a right of consumers to get access to a basic payment account.

The Austrian Act on Consumer Loans (*Bundesgesetz über Verbraucherkreditverträge und andere Formen der Kreditierung zu Gunsten von Verbraucher – VKrG*) – transposing the EU Directive No 2008/48 on credit agreements for consumers into Austrian law – stipulates information and other duties regarding the granting of consumer loans and provides a framework for consumer loan agreements. Similar provisions are provided for in the Austrian Mortgage and Real Property Act (*Hypothekar- und Immobilienkreditgesetz*) – implementing transposing Directive No 2014/17/EU on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1903/2010.

Further, the Austrian Act on Distance Financial Services (*Bundesgesetz mit dem ein Bundesgesetz über den Fernabsatz von Finanzdienstleistungen an Verbraucher erlassen wird und das Konsumentenschutzgesetz, das Versicherungsvertragsgesetz sowie das Wertpapieraufsichtsgesetz geändert werden – FernFinG*) – implementing EU Directive No 2002/65 concerning the distance marketing of consumer financial services – relates to the information obligations of credit institutions towards customers in the context of financial services provided by means of telecommunication, and the granting to consumers of rights of withdrawal from agreements for such services.

Breaches of consumer protection provisions may in certain circumstances result in substantial administrative fines against the credit institution and/or its directors or other responsible persons. Further, consumers may file civil law claims against credit institutions to enforce such claims. While there is no formal procedure for class-actions under Austrian law, a group of consumers may raise claims in relation to the same breach and the same general facts in one single lawsuit (for example, this has been the case for claims for repayment of excessive interest on loans).

Further, certain consumer protection agencies and associations (such as the Chamber of Labour (*Arbeiterkammer*) and the Consumer Information Association (*Verein für Konsumenteninformation*)) may – and frequently do – file actions for injunction concerning breaches of consumer protection rules by credit institutions and other enterprises (*Verbandsklagen*). In most cases, such lawsuits claim that certain terms and conditions used by a credit institution violate consumer protection or other mandatory laws and regulations and must no longer be applied by the credit institution, and/or that credit institutions shall terminate a business practice violating such laws and regulations. It is also common for consumer protection agencies and

associations to argue in such lawsuits that the judgement should be published in a newspaper to make the breach evident for consumers. In recent years, such lawsuits have resulted in numerous terms and conditions used by most credit institutions being declared void. Such terms and conditions have included, amongst others, the calculation of interest rates for saving deposits and loans, certain fees charged to customers for banking services, the ability of a credit institution to change terms and conditions unilaterally as well as changes where the consent is deemed to be given if the customer does not object within a certain time period and liability provisions to the disadvantage of the customer. While in such lawsuits filed by consumer protection agencies and associations no payment claims of consumers can be raised, the court decisions resulting from such lawsuits often serve as precedents for direct claims raised by consumers; thus credit institutions usually make payments or negotiate settlements with customers based on such precedents to avoid further litigation.

6.3 Capital Requirements

6.3.1 Levels of Supervision

Capital requirements must be complied with by all credit institutions of BAWAG Group, i.e. BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK, start:bausparkasse and Südwestbank, on an individual level. In addition, BAWAG P.S.K. as the largest credit institution of BAWAG Regulatory Group also has to observe compliance of the capital requirements by BAWAG Regulatory Group on a consolidated or group level. This means that the own funds and the risk-weighted assets of all group members, including the Issuer, are taken into account when calculating the relevant capital ratios for BAWAG Regulatory Group. Compliance with regulatory capital requirements on an individual bank and group level is monitored by the ECB in its capacity as competent or "consolidating" supervisor.

6.3.2 Basel III and CRD IV/CRR

Basel III has been implemented into European law by the CRD IV/CRR package which came into effect on 1 January 2014, with some of the regulatory requirements gradually phasing in through 1 January 2019. The CRD IV/CRR package increased the required quality and quantity of own funds, in particular the capital required to be held against derivative positions, and introduced a new liquidity framework as well as a leverage ratio which must be reported to the supervisory authorities. Capital buffers have to be maintained on top of minimum own funds requirements. The CRD IV/CRR package also addresses, *inter alia*, capital requirements relating to counterparty default risk and large exposure limits.

6.3.3 Minimum Capital Requirements (Pillar 1)

The minimum capital requirements (so-called 'Pillar 1 requirements') for EU and thus Austrian credit institutions are primarily set forth in the CRR. The CRR requires each credit institution to maintain an adequate level of regulatory capital in relation to its risks. Relevant risks include, in particular, credit risk, market risk and operational risk (including, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). CET 1 capital forms the key component of a credit institution's regulatory capital for compliance with the capital requirements under the CRR. CET 1 capital primarily consists of share capital, retained earnings and other reserves, subject to certain regulatory adjustments. Another component of regulatory capital is AT 1 capital which includes, for example, certain unsecured subordinated perpetual capital instruments and related share premium accounts. Generally, the terms and conditions of all instruments recognised as CET 1 capital must require that the principal amount of the instruments will be written down, or converted into CET 1 capital when the CET 1 capital ratio of the relevant institution falls below a minimum of 5.125% (or such higher level as the issuing institution may determine), although regulators may require a higher trigger, for example for stress-testing purposes. CET 1 capital and AT 1 capital together constitute "Tier 1" capital. Tier 1 capital requirements are aimed at ensuring the ability to absorb losses on a "going concern" basis. T2 capital forms the lower tier of the regulatory capital and generally consists of long-term subordinated debt instruments with loss absorption capacity only on a "gone concern" basis. Tier 1 capital and T2 capital together constitute the "own funds" of a credit institution. The CRR gradually excludes certain existing capital instruments (which have been issued in the past) from their eligibility as own funds (so-called 'phasing out') or reclassifies those instruments to a lower own funds quality. For example, existing hybrid capital instruments will, over time, be phased out as AT 1 capital. Furthermore, the former Tier 3 capital is no longer recognised as own funds under the CRR.

The minimum requirements for Tier 1 capital amount to 6% since 1 January 2015. The total capital ratio without capital buffers has remained at 8% of risk-weighted assets.

6.3.4 Capital Buffers

The introduction of capital buffers is addressed in the CRD IV and is implemented into Austrian law by the BWG and the Capital Buffers Regulation (*Kapitalpuffer-Verordnung – KP-V*). All capital buffers have to consist of CET 1 capital. Since the beginning of 2016, the BWG requires Austrian credit institutions to build up a permanent capital conservation buffer of 2.5% of risk-weighted assets shall (in annual steps of 0.625%). Furthermore, the following additional capital buffers may be prescribed by the national legislators or the supervisory authorities: (a) a countercyclical capital buffer of up to 2.5% (in annual steps of 0.25%) of risk-weighted assets generated in the respective EU member state (for Austria and Germany, the relevant countercyclical capital buffer rates have been set by the FMA and BaFin at 0% as of 2017, respectively); (b) a systemic risk buffer (for Austrian credit institutions, the systemic risk buffer may be set between 1 and 2% and is relevant since 1 January 2016; for BAWAG Regulatory Group, a systemic risk buffer has been set by the FMA at 1% and has to be maintained in the following steps: as of 2016: 0.25%, as of 2017: 0.5% and as of 2018: 1%), and further (c) a buffer for global systemically

important institutions (which does not apply to BAWAG Regulatory Group) and (d) a buffer for other systemically important institutions (which generally applies to BAWAG Regulatory Group, but is not materially relevant since the systemic risk buffer is higher than the buffer for other systemically important institutions and only the higher of those two buffers is applied). On a risk-weighted basis for the financial year 2017 the consolidated countercyclical buffer for BAWAG Group amounted to 0.0658%.

The introduction of capital buffers is intended to improve the stability of banks and the entire financial market by increasing the loss absorption capacity of institutions in times of crisis. A broader catalogue of supervisory measures available to the FMA and changes in administrative penalties are intended to contribute to the strengthening of the banking, securities and financial conglomerates supervision and to preventing violations of regulatory requirements.

6.3.5 Supervisory Review and Evaluation Process (Pillar 2)

Furthermore, the ECB may impose capital requirements on individual significant credit institutions within the SSM that are more stringent than the statutory minimum requirements set forth in the CRR. Such power is generally used by the ECB on a yearly basis as part of the so-called SREP during which the supervisory authorities review a bank's compliance with the CRR and the relevant national legislation implementing the CRD IV, in the case of Austria the BWG.

As part of the SREP, the competent supervisory authority (in case of BAWAG Regulatory Group, the ECB) examines the arrangements taken by an institution to comply with the provisions and assesses the risks to which the institution is or might be exposed and the (systemic) risks that an institution poses. In addition to credit, market and operational risks, the SREP also includes a review of liquidity risk management, interest rate risk arising from non-trading activities, the risk of excessive over-indebtedness, concentration risks, the results of stress tests, the impact of diversification effects and how such effects are factored into the risk measurement system, the business model of the institution, governance arrangements, the corporate culture, and the ability of members of the management body to perform their duties. The frequency and intensity of the review and evaluation will be determined by the supervisory authority having regard to the size, systemic importance, nature, scale and complexity of the activities of the institution concerned, taking into account the principle of proportionality. With a view to standardising the SREP throughout the EU, the EBA published on 19 December 2014 its Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2014/13). These guidelines regulate in detail the categorisation of institutions, the monitoring of key indicators for the early identification of changes in financial condition or in risk profile, the analysis of the business model, the assessment of internal governance and institution-wide control arrangements, the evaluation of capital risks and adequacy, the evaluation of liquidity risks and adequacy, the summary of the overall assessment and the regulatory measures implemented to mitigate the risks that have emerged. Since 1 January 2016, the new guidelines should be applied by all European banking supervisors, including the ECB.

At the end of the review process, the competent supervisory authority takes a SREP decision in relation to each relevant bank setting out, depending on the outcome of the SREP, specific capital and liquidity requirements for each affected bank. Any additional bank-specific capital requirements resulting from the SREP are referred to as Pillar 2 requirements and must be fulfilled in addition to the statutory minimum capital requirements and capital buffers. The Pillar 2 requirement must be met with CET 1 capital. Also following the SREP, the ECB may communicate to individual banks an expectation to hold a further Pillar 2 guidance. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding and failure to meet the Pillar 2 guidance does not automatically trigger legal action. Finally, also based on the outcome of the SREP, the competent supervisory authority may take a range of other measures in response to shortcomings in a bank's governance and risk management processes as well as its capital or liquidity position, such as prohibiting dividend payments to shareholders or distributions to holders of regulatory capital instruments.

6.3.6 Comprehensive Assessment Conducted by the ECB and EU-wide Stress Tests Performed by the EBA

Prior to assuming its role as the primary prudential supervisory authority for the eurozone in November 2014 within the framework of the SSM, the ECB conducted a Comprehensive Assessment of 130 major European banks, including BAWAG Group. Banks deemed significant as defined in the SSM Regulation and therefore directly supervised by the ECB (including BAWAG Group) were subject to the Comprehensive Assessment. The Comprehensive Assessment aimed to base the launch of the SSM on a solid ground in terms of providing greater transparency regarding banks' balance sheets by ensuring a uniform testing methodology across Europe. The Comprehensive Assessment was carried out in collaboration with the EBA, the ESRB and the national competent authorities of the member states that participate in the SSM. Independent third parties including auditors were involved at all levels.

The assessment consisted of three interlinked pillars: (a) a supervisory risk assessment to review, both quantitatively and qualitatively, key risks such as liquidity, leverage and refinancing; (b) the AQR to enhance the transparency of bank exposures by reviewing the quality of assets held by banks, including a review of whether the valuation of assets and collateral and related provisions was adequate; and (c) a stress test, the purpose of which was to test the resilience of bank balance sheets in the event of adverse market conditions.

The stress test conducted under the Comprehensive Assessment was part of the mandate of the EBA, in cooperation with the ESRB, the ECB and the European Commission, to conduct stress tests for the EU as a whole by looking at a sample of 123 banks in the EU (including BAWAG Regulatory Group) at the highest level of consolidation, and using the same methodology, scenarios and assumptions. The aim of the mandate was to conduct a rigorous assessment of the resilience of the banks under stressed conditions and to provide supervisory authorities, market participants and institutions with consistent data

allowing them to compare the resilience of various banks within the EU in order to guarantee the proper functioning and integrity of the financial markets and to ensure the stability of the financial system in the EU, and to monitor and assess market developments as well as identify trends, potential risks and vulnerabilities in supervision at the micro level (micro-prudential supervision). Banks not included in the EBA's test sample but subject to the Comprehensive Assessment were tested using the same methodology and parameters as part of the Comprehensive Assessment conducted by the ECB.

On 26 October 2014, the ECB published the results of the Comprehensive Assessment. As regards BAWAG Regulatory Group, no shortfall of capital in relation to the capital thresholds set (8% CET 1 ratio for the baseline scenario and 5.5% for the adverse scenario) has been determined in the stress tests conducted as part of the Comprehensive Assessment.

The EBA is required to at least annually consider whether it is appropriate to carry out EU-wide assessments of the resilience of financial institutions. However, in 2015, instead of a stress test, EBA conducted a transparency exercise similar to the one carried out by it in 2013. The results were published in November 2015 and included detailed bank-to-bank data on capital positions, risk exposure amounts and asset quality on 105 banks from 21 countries of the EEA. In 2016, 51 European Banks participated in the EU-wide stress test conducted by the EBA. It covered over 70% of the national banking-industry assets in the eurozone. BAWAG Regulatory Group was not subjected to the EBA's 2016 stress test. However, parallel to the 2016 stress test, the ECB conducted a banking supervisory SREP stress test for another 56 European banks, including BAWAG P.S.K. Both stress tests were designed to be used as a crucial piece of information for SREP in 2016, however, only the results of the EBA 2016 stress test were made publicly available. On 31 January 2018, the EBA launched its next EU-wide stress test in 2018; the EBA intends to publish the results by 2 November 2018.

6.4 Leverage Ratio

As a complement to the risk-based capital requirements, Basel III also proposes a non-risk based leverage ratio. While the CRR, as currently in effect, does not require banks to comply with a specific leverage ratio, banks are required to report and publish their leverage ratios for a future assessment and calibration of the leverage ratio. Among the package of reforms published by the European Commission on 23 November 2016 (see "6.2.3 Banking Legislation" above) is a proposal to introduce a binding minimum leverage ratio requirement of 3% of Tier 1 capital into the CRR.

6.5 Limitation On Large Exposures

The CRR further contains the primary restrictions on large exposures, which limit a bank's concentration of credit risks. In Austria, supplemental rules are included in the BWG, for example, certain exemptions (in addition to those contained in the CRR) from the applicability of limits to large exposures. Under the CRR, a credit institution's exposure to a customer (and any other customers affiliated with it) is deemed to be a "large exposure" if the value of such exposure is equal to or exceeds 10% for the unweighted exposure or 25% for the weighted exposure of the institution's "eligible capital". All exposures to a single customer (and other customers affiliated with it) are aggregated for these purposes. In general, no large exposure may exceed 25% of eligible capital. "Eligible capital" for this purpose means the sum of Tier 1 capital and T2 capital, however, with T2 capital being capped at one third of the Tier 1 capital. If the customer is a credit institution or investment firm, the exposure is limited to the higher of (i) 25% of the eligible capital and (ii) € 150 million. Competent authorities may set a lower limit than € 150 million. Among the package of reforms published by the European Commission on 23 November 2016 (see "6.2.3 Banking Legislation" above), is a proposal to restrict a bank's exposures to a single counterparty to 25% of its Tier 1 capital. Within BAWAG Group, the limitation on large exposures must be met by all credit institutions, in particular BAWAG P.S.K., on an individual level as well as by BAWAG Regulatory Group on a consolidated level.

6.6 Liquidity Requirements

The CRR introduced a binding LCR intended to ensure that credit institutions have an adequate stock of unencumbered high quality liquid assets that can be easily and quickly converted into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario. The required LCR is calculated as the ratio of a bank's liquidity buffer to its net liquidity outflows. Also, banks must regularly report the composition of the liquid assets in their liquidity buffer to their competent authorities. The LCR requirement has been gradually phased in through 1 January 2018 reaching a set LCR requirement of 100%. Details on the LCR requirement have been set forth by the European Commission in implementing legislation, which became applicable on 1 October 2015. The ECB supervises BAWAG Regulatory Group's compliance with the LCR requirement both at the level of each credit institution and at the level of BAWAG Regulatory Group.

In addition, Basel III contains a proposal to introduce the NSFR to reduce medium- to long-term funding risks by requiring banks to fund their activities with sufficiently stable sources of funding over a one-year period. The CRR contains interim reporting requirements on stable funding but does not yet include substantive provisions relating to the NSFR. The package of reforms published by the European Commission on 23 November 2016 (see "6.2.3 Banking Legislation" above) includes a proposal to introduce a binding NSFR into the CRR II. According to this proposal, the NSFR is defined as the ratio of a bank's available stable funding relative to the amount of required stable funding over a one-year period. According to the proposal, banks must maintain an NSFR of at least 100%.

The ECB may impose on individual banks liquidity requirements which are more stringent than the general statutory requirements if such bank's continuous liquidity would otherwise not be ensured.

6.7 Investigative and Enforcement Powers of the Supervisory Authorities

6.7.1 Investigative Powers and Supervisory Audits

Under the SSM Regulation, the ECB may conduct investigations of banks and financial holding companies that it supervises, such as the Issuer and its banking subsidiaries. In particular, the ECB may request information, require the submission of documents, examine the books and records of the bank or the financial holding company and carry-out on-site inspections at the relevant entity's business premises. In particular, the ECB may audit BAWAG Regulatory Group's compliance with requirements with respect to which it supervises BAWAG Regulatory Group, such as those set forth in the CRR and the BWG.

The FMA is also afforded an array of powers to investigate and supervise Austrian banks. These powers include the power to require the delivery of certain information or reports or to instruct audits. The FMA may also conduct on-site inspections (with the help of the OeNB).

Further, the Austrian Federal Minister of Finance appoints a state commissioner (*Staatskommissär*) (and a deputy state commissioner) for credit institutions whose total assets exceed € 1 billion (thus in particular including BAWAG P.S.K.). The state commissioner (and the deputy state commissioner) must be invited to shareholder meetings, to the meetings of the supervisory board, of the audit committees and of executive committees of the supervisory board and may, *inter alia*, raise objections to resolutions and report to the supervisory authority. Such objections generally postpone the effectiveness of the resolution until a decision is issued by the supervisory authority.

6.7.2 Supervisory and Enforcement Powers

The ECB has a wide range of enforcement powers in the event it discovers any irregularities concerning adherence to requirements with respect to which it supervises BAWAG Regulatory Group. Under the SSM Regulation, it may, for example, require BAWAG Regulatory Group to hold additional own funds or meet higher liquidity requirements in excess of statutory minimum requirements, restrict or limit BAWAG Regulatory Group's business; require the cessation of activities to reduce risk; require BAWAG Regulatory Group to use net profits to strengthen its own funds, restrict or prohibit dividend payments to shareholders or distributions to holders of AT 1 instruments; or remove the members of a bank's management or supervisory board from their office. To the extent necessary to carry out the tasks granted to it, the ECB may also require national supervisory authorities, such as the FMA, to make use of their powers under national law. If these measures are inadequate, the ECB may ultimately revoke a bank's license.

Furthermore, the ECB has the power to impose administrative penalties in case of breaches of directly applicable EU laws, such as the CRR, or of applicable ECB regulations and decisions. In addition, where necessary to carry out the tasks granted to it, the ECB may also require that the FMA initiates proceedings to ensure that appropriate penalties are imposed on the affected bank. Penalties imposed by the ECB or the FMA may amount to up to twice the amount of profits gained or losses avoided because of the violation, or up to 10% of the total annual turnover of the relevant entity in the preceding business year or such other amounts as may be provided for in relevant EU or Austrian law.

The FMA also retains a wide range of enforcement powers. Any bank operating in Austria that is subject to regulation and supervision by the FMA and which is found not to be in compliance with legal requirements may be subject to an order by the FMA, if there is reason to doubt such bank's ability to fulfil its obligations towards its customers. By such order, the FMA may in particular order the bank to remedy breaches of regulatory law (or otherwise impose fines), prohibit withdrawals of capital or profits from the bank (in whole or in part), appoint a government commissioner (*Regierungskommissär*) authorised to, *inter alia*, prohibit all business which could be prejudicial to the safety of the interests of the customers of the bank, prohibit further management of the bank by such bank's existing management board or prohibit (in whole or in part) further business of the bank altogether. Further, the FMA may impose substantial fines for breaches of Austrian regulatory provisions.

6.8 Financial Statements and Audits

As required by the Austrian Enterprise Code (*Unternehmensgesetzbuch – UGB*), BAWAG P.S.K. and the Issuer prepare their respective non-consolidated financial statements in accordance with Austrian GAAP.

The Issuer's Audited Consolidated Financial Statements are prepared in accordance with IFRS. In addition, BAWAG P.S.K. is required to prepare consolidated financial statements in accordance with IFRS and applicable regulatory requirements under the BWG.

Under Austrian law, both the unconsolidated financial statements as well as the consolidated financial statements of the Issuer and BAWAG P.S.K. are required to be audited annually by a certified public accountant, which, in case of BAWAG P.S.K., has to meet the requirements of a bank auditor (*Bankprüfer*) under the BWG. The audit report has to include an annex regarding compliance with certain regulatory provisions (*bankaufsichtsrechtlicher Prüfungsbericht*). The auditor of the Issuer is appointed each year by the shareholders' meeting upon an applicable proposal by the Supervisory Board of the Issuer. The auditor of BAWAG P.S.K. is appointed each year for the following financial year by the shareholders' meeting of BAWAG P.S.K. upon an applicable proposal by the supervisory board of BAWAG P.S.K. In relation to the appointment of BAWAG P.S.K.'s auditor, the FMA must be informed in writing thereof and may reject the auditor's appointment. The BWG requires that a bank's auditor inform the FMA of any facts that come to the auditor's attention which would lead it to refuse to certify or to limit its certification

of the entity's financial statements or which would adversely affect the entity's financial position within two weeks as of its appointment. The auditor is also required to notify the FMA in the event of a material breach by management of the articles of association or of any other applicable law. The auditor is required to prepare an annual audit report (*Prüfungsbericht*) for submission to the entity's supervisory board, the FMA, the OeNB and the ECB.

On 1 July 2013, the Austrian Control of Accounting Act (*Rechnungslegungs-Kontrollgesetz – RL-KG*) entered into force. It ensures that financial information (annual reports as well as interim financial information) as well as certain other information published by entities having securities admitted to trading on a regulated market in Austria are compliant with national and international accounting standards. To this end, either the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung*), acting for the FMA, or the FMA directly, conducts audits either on a random basis or on a targeted basis when indications exist that accounting standards have been infringed. The FMA will issue a decree on any inaccuracies detected in the course of such audit which can be appealed before the independent Austrian Federal Court of Appeal (*Bundesverwaltungsgerichtshof*). In addition, inaccuracies detected may also be made public if the public interest to be informed about such findings overrides the respective entity's interest of keeping the findings confidential.

6.9 Recovery and Resolution

6.9.1 BRRD and its implementation in Austria

The BRRD has been implemented in Austria in particular by the BaSAG. The BaSAG and certain other amendments to Austrian law entered into force on and apply since 1 January 2015. Under the BaSAG, the FMA has been given the role of national resolution authority for Austria.

The BRRD and the BaSAG apply to credit institutions within the meaning of the CRR such as the six credit institutions which are part of BAWAG Regulatory Group, i.e. BAWAG P.S.K., easybank, Wohnbaubank, IMMO-BANK, start:bausparkasse and Südwestbank, as well as financial holding companies that are part of a regulated banking group, such as the Issuer.

6.9.2 Establishment of the Single Resolution Mechanism

As of 1 January 2016, the SRM has been established within the eurozone which centralises at a European level the key competences and resources for managing the failure of banks in the eurozone. As an EU member state the currency of which is the Euro, Austria also participates in the SRM. The SRM is based on the SRM Regulation. The SRM complements the SSM and applies to all banks and banking groups supervised within the SSM.

At the core of the SRM is the SRB which is a newly established agency of the EU with its headquarter in Brussels, Belgium. Competencies are shared between the SRB and the national resolution authorities of the participating EU member states. While the SRB is competent and responsible for all those credit institutions and their parent undertakings that are subject to direct supervision within the SSM by the ECB (which includes BAWAG Regulatory Group) or are part of a cross-border group active in the eurozone, the national resolution authorities, such as the FMA for Austria, remain competent for those banks which only operate nationally and are not subject to direct supervision by the ECB, provided their resolution would not involve any use of the SRF (see "6.9.6 Single Resolution Fund" below).

6.9.3 Recovery and Resolution Planning; Early Intervention

Under the BaSAG, BAWAG P.S.K. is required to prepare, and update on an annual basis, a group recovery plan for BAWAG Regulatory Group describing how the group's financial stability could be restored in the event of a financial crisis. The recovery plan will be assessed by the ECB being the competent prudential supervisory authority for BAWAG Regulatory Group. And the ECB also enjoys extensive supervisory powers when it regards the recovery plan as being insufficient. On the contrary, it is the task of the SRB under the SRM Regulation to draw up a group resolution plan for BAWAG Regulatory Group and to regularly assess its resolvability. As part of its assessment, the SRB must identify and, where necessary and proportionate, has the power to address and remove any material impediments to resolvability. Similar to the powers of the ECB when assessing a bank's recovery plan, the SRB has the power to require a bank to limit its risk exposures or to divest specific assets to restrict or prevent the development of new or existing business lines or to require changes to legal or operational structures of the institution and the group, respectively.

The SRB (in cooperation with the ECB and the FMA) is granted powers to intervene at an early stage if problems arise, especially where the provisions of the CRR regarding the financial condition of the institution are infringed (early intervention measures). This includes, for instance, the power to demand that measures outlined in the recovery plan be implemented, managing directors be dismissed, creditor negotiations for debt restructuring be initiated, a shareholders' meeting be convened or changes be made to the operational or legal structures of the institution.

6.9.4 Resolution

The SRM Regulation and the BaSAG provide the resolution authorities with a toolset to react to a financial crisis of a credit institution in order to ensure the continuity of any critical functions, avoid significant adverse effects on financial stability, in particular by preventing contagion, protect public funds by minimising reliance on extraordinary public financial support and

protect depositors covered by a deposit guarantee scheme or investors covered by an investor compensation scheme or protect client funds and client assets (the so-called 'resolution objectives').

In the event that a credit institution of BAWAG Regulatory Group or the Issuer meets the following conditions for resolution, the SRB is responsible for adopting a resolution scheme for resolving the relevant entity pursuant to the SRM Regulation:

- The entity is failing or likely to fail, i.e.:
 - The entity infringes, or there are objective elements to support a determination that the entity will, in the near future, infringe the requirements for continuing authorisation in a way that would justify the withdrawal of its authorisation by the ECB;
 - The assets of the entity are, or there are objective elements to support a determination that the assets of the entity will, in the near future, be less than its liabilities;
 - The entity is, or there are objective elements to support a determination that the entity will, in the near future, be unable to pay its debts or other liabilities as they fall due; or
 - The entity is about to receive certain forms of extraordinary public financial support;
- Having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by an institutional protection scheme (IPS), or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments, would prevent the failure of the entity within a reasonable timeframe; and
- A resolution action is necessary in the public interest, i.e. it is necessary and proportionate for the achievement of the resolution objectives, and the achievement of these resolution objectives could not be guaranteed to the same extent by winding up the institution under normal insolvency proceedings.

Generally, resolution action in relation to a parent undertaking which is not a credit institution such as the Issuer may only be taken by the SRB where the afore mentioned conditions are met with regard to both that parent undertaking and one or more of its subsidiaries which are credit institutions. In situations where only one or more of the banking subsidiaries but not the parent undertaking itself meets the conditions for resolution, the SRB may nevertheless impose resolution measures on the parent undertaking, provided that the assets and liabilities of the subsidiary are such that their failure threatens the subsidiary institution or the group as a whole and resolution action with regard to the parent undertaking is necessary for the resolution of the subsidiary institutions or for the resolution of the group as a whole.

The European Commission and, to a lesser extent, the Council of the European Union, have a role in endorsing or objecting to the resolution scheme proposed by the SRB. The resolution scheme would be addressed to and implemented by the competent national resolution authorities, i.e. in Austria, the resolution scheme would be implemented by the FMA which has the necessary jurisdiction over the Issuer and the credit institutions of BAWAG Regulatory Group.

Resolution measures that could be imposed upon a failing entity may include a range of measures including, in particular, the transfer of shares, assets or liabilities of the entity to another legal entity (such as a bridge institution or a third-party purchaser), the reduction, including to zero, of the nominal value of shares, the dilution of shareholders of a failing entity or the cancellation of shares outright, or the write-down, including to zero, of the principal amount or the outstanding amount or the conversion of AT 1 capital instruments, T2 capital instruments and eligible liabilities into CET 1 instruments of the resolved entity (the so-called 'bail-in'). A reduction or write-down is possible in order to allocate losses to shareholders and creditors, whereas a conversion is only permissible for the purpose of the recapitalisation of the failing entity or group to the extent sufficient to restore its viability or for the capitalisation of a bridge institution. The sequence of reduction, write-down and conversion is subject to the general rule that instruments of the next higher rank may only be reduced or converted if the total reduction (e.g., the cancellation of the entity's shares) or conversion (e.g., a conversion of liabilities into CET 1 instruments) of the previous rank(s) could not cover the aggregate amount by which a write-down or conversion is necessary.

Covered deposits (i.e. deposits up to € 100,000 which are subject to deposit protection and secured liabilities, including covered bonds, as well as the following liabilities are excluded from bail-in: liabilities by virtue of the holding of client assets and client money, provided such client is in each case protected under the applicable insolvency law, liabilities by virtue of a fiduciary relationship provided that such client is in each case protected under applicable insolvency or civil law, liabilities to credit institutions with an original maturity of less than seven days, liabilities to operators or participants of payment and securities settlement systems with a residual maturity of less than seven days, liabilities to employees in relation to accrued salary, pension benefits or other fixed remuneration, liabilities to a commercial or trade creditor for services which are critical to the daily functioning of the entity's operations, liabilities to tax and social security authorities if preferred under applicable law and liabilities to DGS.

Pursuant to the BaSAG, any write-down (or conversion) of all or part of the principal amount of any capital or debt instruments included accrued but unpaid interest in respect thereof, in accordance with the creditor participation would not constitute an event of default under the terms of the relevant instruments. Consequently, any amounts written down (or converted) would be irrevocably lost and the holders of such instruments would cease to have any claims thereunder, regardless whether or not the

entity's financial position is restored. Pursuant to the SRM Regulation and the BaSAG, the SRB and the FMA would be required ensure that, when applying the resolution tools, creditors do not incur greater losses than those they would have incurred if the relevant entity had been wound up under normal insolvency proceedings (the so-called 'no creditor worse off principle'). If shareholders or creditors incur greater losses than those they would have incurred if the entity had been wound up under normal insolvency proceedings, the shareholder or creditor in question is entitled to payment of the difference from the competent resolution financing arrangement (see "6.9.6 Single Resolution Fund" below).

In addition to the 'bail-in' and the other resolution tools, the SRB and the FMA are authorised to change the management of an institution, assume control of the institution, appoint a resolution administrator, transform the institution into a stock corporation, temporarily suspend payment and delivery obligations, temporarily suspend termination rights as well as suspend the enforcement of security interests or close out or terminate derivative contracts. The maximum suspension period takes until expiration of the business day which follows the day of publication of the notice of suspension.

6.9.5 Minimum Requirements for Own Funds and Eligible Liabilities

To prevent banks from structuring their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools, the SRM Regulation and the BaSAG, implementing the BRRD, introduced a requirement for banks to meet the MREL. The MREL is to be determined by the competent resolution authorities for each supervised bank individually; it applies to all banks across the EU. Currently, MREL ratios are expressed as a percentage of the total liabilities and own funds of the relevant institution; as part of the European Commission's proposal of 23 November 2016 to amend the BRRD and the SRM Regulation, it is intended to change this approach to express MREL as percentages of the total risk exposure amount and the leverage ratio exposure measure. The SRB as the competent resolution authority for BAWAG Regulatory Group under the SRM Regulation may also require that such percentage is wholly or partially composed of own funds or of a specific type of liabilities.

6.9.6 Single Resolution Fund

Pursuant to the SRM Regulation, the SRF has been set up in order to centralise the national resolution financing arrangements of the eurozone which have been introduced by the BRRD. On 21 May 2014, all EU member states except the U.K. and Sweden signed an intergovernmental agreement on the transfer and mutualisation of their national contributions to the SRF. The SRF has a total target level, to be achieved by 1 January 2024, of 1% of the amount of covered deposits of all credit institutions authorised in the participating EU member states (which are basically the member states participating in the eurozone and the SSM) which amounts to an estimated € 55 billion. The SRF is owned and administrated by the SRB. It can also borrow from the markets if decided by the SRB.

Until the SRF has completely built up its funds, it will comprise national compartments corresponding to each participating EU member state. The annual contributions paid by the Austrian institutions under the BRRD and the BaSAG into the Austrian national resolution fund in 2015 amounting to € 198 million were transferred to the Austrian compartment in the SRF in January 2016. The resources accumulated in those compartments would be progressively mutualised over an initial period of eight years, starting with a mutualisation of 40% of these resources in the first year (2016) to reach 100% mutualisation in 2023. Mutualisation means that the national contributions raised by Austrian institutions are used increasingly to fund the resolution of banks in other participating member states and that funds contributed by institutions domiciled in other participating member states are used increasingly to fund the resolution of Austrian banks. Contributions to the SRB are due from each credit institution of BAWAG Regulatory Group; they consist of a fixed amount (basic annual contribution) which takes into consideration the target level of the SRF and is determined on the basis of the relevant institution's liabilities, excluding own funds and covered deposits pro rata to the aggregate of all eurozone banks. The basic annual contribution is then subject to an additional risk-adjustment at a rate between 0.8 and 1.5%.

The SRF may be used to assist the organised resolution of a credit institution or other entity by, *inter alia*, guaranteeing the assets or the liabilities of the entity under resolution, making loans to the entity under resolution, purchasing assets of the entity under resolution, making contributions to the entity under resolution, a bridge institution or an asset management vehicle, and paying compensation to shareholders or creditors if they have incurred greater losses than they would have incurred in a winding up under normal insolvency proceedings. However, the SRF may only be used for resolving failing banks after certain other options, such as the bail-in tool, have been exhausted to a certain extent.

7 TAXATION

The following is a general overview of certain tax considerations relating to the purchasing, holding and disposing of Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder. The discussions that follow for each jurisdiction are based upon the applicable laws in force and their interpretation on the date of this Prospectus. These tax laws and interpretations are subject to change that may occur after such date, even with retroactive effect.

The information contained in this section is limited to taxation issues and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Prospective Holders should consult their own tax advisers as to the particular tax consequences of subscribing, purchasing, holding and disposing the Notes, including the application and effect of any federal, state or local taxes, under the tax laws of the Republic of Austria ("Austria"), the Grand Duchy of Luxembourg and each country of which they are residents or citizens.

7.1 Austria

This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the Notes in Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential investors. The following comments are rather of a general nature and included herein solely for information purposes. They are not intended to be, nor should they be construed to be, legal or tax advice. This summary is based on the currently applicable tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential investors in the Notes consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Notes. Tax risks resulting from the Notes (in particular from a potential qualification as equity for tax purposes instead of debt) shall in any case be borne by the investor. For the purposes of the following it is assumed that the Notes are legally and factually offered to an indefinite number of persons.

7.1.1 General remarks

Individuals having a domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*), both as defined in § 26 of the Austrian Federal Fiscal Procedures Act (*Bundesabgabenordnung*), in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*), both as defined in § 27 of the Austrian Federal Fiscal Procedures Act, in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

7.1.2 Income taxation of the Notes

Austrian statutory law does not contain specific provisions on the qualification of Additional Tier 1 instruments for Austrian (corporate) income tax purposes. However, pursuant to § 8(3)(1) item 2 of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*), which is typically applied for purposes of qualifying hybrid instruments either as equity or as debt for Austrian (corporate) income tax purposes, *jouissance* rights and other financial instruments (*Genussrechte und sonstige Finanzierungsinstrumente*) granting a right to participate in both the current profits and the liquidation profits of the issuer are to be qualified as equity instruments. In contrast thereto, *jouissance* rights and other financial instruments granting a right to participate either in the current profits or in the liquidation profits of the issuer or in neither of the two categories are to be qualified as debt instruments. In addition, reference has to be made to jurisprudence of the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) pursuant to which the qualification of hybrid instruments, such as *jouissance* rights, has to be based on whether typical equity-like criteria outweigh typical debt-like criteria from a quantitative and qualitative perspective, thereby taking into account the instrument's term, the profit dependency of distributions, the participation in the issuer's substance/liquidation profit, the granting of securities, a potential subordination and the lack of typical shareholder control and voting rights.

In April 2014, a professional interest association submitted to its members a statement received from the Austrian Federal Ministry of Finance (*Bundesministerium für Finanzen – BMF*) which confirms that due to its structural elements, Additional Tier

1 instruments within the meaning of Article 52 of the CRR can be qualified as debt for Austrian (corporate) income tax purposes based on § 8(3)(1) item 2 of the Austrian Corporate Income Tax Act. As a result of this qualification, distributions effected by the issuer under Additional Tier 1 instruments are generally deductible at the level of the issuer for corporate income tax purposes (unless general restrictions – which are applicable to any debt instruments – apply). This statement of the Austrian Ministry of Finance does not address any other potential Austrian tax aspects in the context of the issuance of Additional Tier 1 instruments.

In a recently published draft ordinance (*Wartungserlass*) proposing changes to the Austrian Corporate Income Tax Guidelines (*Körperschaftsteuerrichtlinien*), the Austrian Ministry of Finance stated the following: Instruments qualify as equity-type *jouissance* rights and other financial instruments in the meaning of § 8(3)(1) item 2 of the Austrian Corporate Income Tax Act if they grant a right to participate in the current profits and the liquidation profits of a corporation. Both prerequisites mentioned in the statute must be fulfilled. In case no participation in the current profits, in the liquidation profits, or in both types of profits exists, an instrument qualifies as a debt-type *jouissance* right (i.e. as debt); consequently, payments under such an instrument are tax deductible. *Jouissance* rights and other financial instruments fulfilling the prerequisites of § 8(3)(1) item 2 of the Austrian Corporate Income Tax Act are to be qualified as equity for income tax purposes; all kinds of distributions under such instruments qualify as tax-neutral use of income. AT 1 instruments and Tier 2 instruments in the meaning of Articles 51 and 62 of the CRR, are to be qualified as equity or debt for tax purposes in line with the criteria outlined in § 8(3)(1) item 2 of the Austrian Corporate Income Tax Act; usually such instruments will qualify as debt for tax purposes.

For purposes of the following, the Issuer assumes that the Notes qualify as debt for Austrian (corporate) income tax purposes. In case of a qualification of the Notes as equity, the tax consequences would substantially differ from those described below.

Pursuant to § 27(1) of the Austrian Income Tax Act (*Einkommensteuergesetz*), the term investment income (*Einkünfte aus Kapitalvermögen*) comprises:

- income from the granting of capital (*Einkünfte aus der Überlassung von Kapital*) pursuant to § 27(2) of the Austrian Income Tax Act, including dividends and interest; the tax basis is the amount of the earnings received (§ 27a(3)(1) of the Austrian Income Tax Act);
- income from realised increases in value (*Einkünfte aus realisierten Wertsteigerungen*) pursuant to § 27(3) of the Austrian Income Tax Act, including gains from the alienation, redemption and other realisation of assets that lead to income from the granting of capital (including zero coupon bonds); the tax basis amounts to the sales proceeds or the redemption amount minus the acquisition costs, in each case including accrued interest (§ 27a(3)(2)(a) of the Austrian Income Tax Act); and
- income from derivatives (*Einkünfte aus Derivaten*) pursuant to § 27(4) of the Austrian Income Tax Act, including cash settlements, option premiums received and income from the sale or other realisation of forward contracts like options, futures and swaps and other derivatives such as index certificates (the mere exercise of an option does not trigger tax liability); e.g., in the case of index certificates, the tax basis amounts to the sales proceeds or the redemption amount minus the acquisition costs (§ 27a(3)(3)(c) of the Austrian Income Tax Act).

Also, the withdrawal of the Notes from a securities account (*Depotentnahme*) and circumstances leading to a restriction of Austria's taxation right regarding the Notes vis-à-vis other countries, e.g., a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (cf. § 27(6)(1) and (2) of the Austrian Income Tax Act). The tax basis amounts to the fair market value minus the acquisition costs (§ 27a(3)(2)(b) of the Austrian Income Tax Act). In case of a restriction of Austria's taxation right vis-à-vis an EU member state or a state of the European Economic Area, the taxpayer may apply for a payment of the triggered income tax in instalments in accordance with (§ 27(6)(1)(d) in connection with) § 6(6) Austrian Income Tax Act or – pursuant to the restrictive requirements of § 27(6)(1)(a) of the Austrian Income Tax Act – for a deferral of taxation until the actual disposal of the Notes.

Individuals subject to unlimited income tax liability in Austria holding the Notes as non-business assets are subject to income tax on all resulting investment income pursuant to § 27(1) of the Austrian Income Tax Act. In case of investment income from the Notes with an Austrian nexus for withholding tax purposes (*inländische Einkünfte aus Kapitalvermögen*), basically meaning income paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depottführende Stelle*), the income is subject to withholding tax (*Kapitalertragsteuer*) at a flat rate of 27.5%; no additional income tax is levied over and above the amount of tax withheld (final taxation pursuant to § 97(1) of the Austrian Income Tax Act). In case of investment income from the Notes without such Austrian nexus for withholding tax purposes, the income must be included in the investor's income tax return and is subject to income tax at the flat rate of 27.5%. In both cases upon application the option exists to tax all income subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act at the lower progressive income tax rate (option to regular taxation (*Regelbesteuerungsoption*) pursuant to § 27a(5) of the Austrian Income Tax Act). The acquisition costs must not include ancillary acquisition costs (*Anschaffungsnebenkosten*; § 27a(4)(2) of the Austrian Income Tax Act). Expenses such as bank charges and custody fees must not be deducted (§ 20(2) of the Austrian Income Tax Act); this applies irrespective of whether the option to regular taxation is exercised. § 27(8) of the Austrian Income Tax Act, *inter alia*, provides for the following restrictions on the offsetting of losses: negative income from realised increases in value and from derivatives may neither be offset against interest from bank accounts and other non-securitised claims vis-à-vis credit institutions (except for cash settlements and lending fees) nor against income from private foundations, foreign private law foundations and other comparable legal estates (*Privatstiftungen, ausländische Stiftungen oder sonstige Vermögensmassen, die mit einer Privatstiftung vergleichbar sind*); income subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian

Income Tax Act may not be offset against income subject to the progressive income tax rate (this equally applies in case of an exercise of the option to regular taxation); negative investment income not already offset against positive investment income may not be offset against other types of income and may not be carried forward to subsequent tax periods. The Austrian custodian agent has to effect the offsetting of losses by taking into account all of a taxpayer's securities accounts with the custodian agent, in line with § 93(6) of the Austrian Income Tax Act, and to issue a written confirmation to the taxpayer to this effect.

Individuals subject to unlimited income tax liability in Austria holding the Notes as business assets are subject to income tax on all resulting investment income in the meaning of § 27(1) of the Austrian Income Tax Act. In case of investment income from the Notes with an Austrian nexus for withholding tax purposes as described above, the income is subject to withholding tax at a flat rate of 27.5%. While withholding tax has the effect of final taxation for income from the granting of capital, income from realised increases in value and income from derivatives must be included in the investor's income tax return (nevertheless such income is taxed at the flat rate of 27.5%). In case of investment income from the Notes without an Austrian nexus for withholding tax purposes, the income must always be included in the investor's income tax return and is subject to income tax at the flat rate of 27.5%. In both cases upon application the option exists to tax all income subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act at the lower progressive income tax rate (option to regular taxation pursuant to § 27a(5) of the Austrian Income Tax Act). The flat tax rate does not apply to income from realised increases in value and income from derivatives if realising these types of income constitutes a key area of the respective investor's business activity (§ 27a(6) of the Austrian Income Tax Act). Expenses such as bank charges and custody fees must not be deducted (§ 20(2) of the Austrian Income Tax Act); this also applies if the option to regular taxation is exercised. Pursuant to § 6(2)(c) of the Austrian Income Tax Act, depreciations to the lower fair market value and losses from the alienation, redemption and other realisation of financial assets and derivatives in the meaning of § 27(3) and (4) of the Austrian Income Tax Act, which are subject to income tax at the flat rate of 27.5%, are primarily to be offset against income from realised increases in value of such financial assets and derivatives and with appreciations in value of such assets within the same business unit (*Wirtschaftsgüter desselben Betriebes*); only 55% of the remaining negative difference may be offset against other types of income (but it may be fully carried forward to subsequent tax periods).

Pursuant to § 7(2) of the Austrian Corporate Income Tax Act, corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on income in the meaning of § 27(1) of the Austrian Income Tax Act from the Notes at a rate of 25%. In the case of income in the meaning of § 27(1) of the Austrian Income Tax Act from the Notes with an Austrian nexus for withholding tax purposes, the income is subject to withholding tax at a flat rate of 27.5%. However, pursuant to § 93(1a) of the Austrian Income Tax Act, a 25% rate may be applied by the withholding agent, if the debtor of the withholding tax is a corporation. Such withholding tax can be credited against the corporate income tax falling due and, as far as exceeding, be refunded. Under the conditions set forth in § 94(5) of the Austrian Income Tax Act withholding tax is not levied in the first place. Losses from the alienation of the Notes can be offset against other income.

Pursuant to § 13(3)(1) in connection with § 22(2) of the Austrian Corporate Income Tax Act, private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in § 13(3) and (6) of the Austrian Corporate Income Tax Act and holding the Notes as non-business assets are subject to interim taxation at a rate of 25% on interest income, income from realised increases in value and income from derivatives (*inter alia*, if the latter are in the form of securities). Pursuant to the Austrian tax authorities' view, the acquisition costs must not include ancillary acquisition costs. Expenses such as bank charges and custody fees must not be deducted (§ 12(2) of the Austrian Corporate Income Tax Act). Interim tax does generally not fall due insofar as distributions subject to withholding tax are made to beneficiaries in the same tax period. In case of investment income from the Notes with an Austrian nexus for withholding tax purposes, the income is in general subject to withholding tax at a flat rate of 27.5%. However, pursuant to § 93(1a) of the Austrian Income Tax Act, a 25% rate may be applied by the withholding agent if the debtor of the withholding tax is a corporation. Such withholding tax can be credited against the corporate income tax falling due and, as far as exceeding, be refunded. Under the conditions set forth in § 94(12) of the Austrian Income Tax Act withholding tax is not levied.

Individuals and corporations subject to limited (corporate) income tax liability in Austria are taxable on income from the Notes if they have a permanent establishment (*Betriebsstätte*) in Austria and the Notes are attributable to such permanent establishment (cf. § 98(1)(3) of the Austrian Income Tax Act, § 21(1)(1) of the Austrian Corporate Income Tax Act). In addition, individuals subject to limited income tax liability in Austria not having such permanent establishment in Austria are also taxable on interest in the meaning of § 27(2)(2) of the Austrian Income Tax Act and accrued interest (including from zero coupon bonds) in the meaning of § 27(6)(5) of the Austrian Income Tax Act from the Notes if the (accrued) interest has an Austrian nexus and if withholding tax is levied on such (accrued) interest. This does not apply to individuals being resident in a state with which automatic exchange of information exists (which fact must be proven by a certificate of residence). Interest with such Austrian nexus is interest the debtor of which has its place of management and/or its legal seat in Austria or is an Austrian branch of a non-Austrian credit institution; accrued interest with such Austrian nexus is accrued interest from securities issued by an Austrian issuer (§ 98(1)(5)(b) of the Austrian Income Tax Act). Under applicable double taxation treaties, relief from Austrian income tax might be available. However, Austrian credit institutions must not provide for such relief at source; instead, the investor may file an application for repayment of tax with the competent Austrian tax office.

If the Notes were not legally or factually offered to an indefinite number of persons, then tax consequences deviating from those outlined above would apply: Regarding individuals holding the Notes, no withholding tax would be deducted and the special tax rate of 27.5% would not apply; rather, investment income from the Notes would have to be included in the investor's income tax return and would be subject to the progressive income tax rate of up to 55%. Also in the case of corporations and private foundations holding the Notes no withholding tax would be deducted and income would be subject to corporate income tax.

7.1.3 Inheritance and gift taxation

Austria does not levy inheritance or gift tax.

Certain gratuitous transfers of assets to private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to foundation transfer tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Transfer Tax Act (*Stiftungseingangssteuergesetz*) if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat and/or their place of management in Austria. Certain exemptions apply in cases of transfers mortis causa of financial assets within the meaning of § 27(3) and (4) of the Austrian Income Tax Act (except for participations in corporations) if income from such financial assets is subject to income tax at a flat rate pursuant to § 27a(1) of the Austrian Income Tax Act. The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate generally is 2.5%, with higher rates applying in special cases.

In addition, there is a special notification obligation for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles if the donor and/or the donee have a domicile, their habitual abode, their legal seat and/or their place of management in Austria. Not all gifts are covered by the notification obligation: In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Transfer Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may trigger fines of up to 10% of the fair market value of the assets transferred.

Further, gratuitous transfers of the Notes may trigger income tax at the level of the transferor pursuant to § 27(6)(1) and (2) of the Austrian Income Tax Act (see above).

7.2 Luxembourg

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

Under Luxembourg general tax laws currently in force and subject to the exception below, no Luxembourg withholding tax is due on payments of interest (including accrued but unpaid interest) or repayments of principal.

In accordance with the law of 23 December 2005, as amended, interest payments made by Luxembourg paying agents to Luxembourg resident individual beneficial owners are subject to a 20% withholding tax. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the law of 23 December 2005 will be subject to a withholding tax at a rate of 20%.

7.3 United States – FATCA

Pursuant to "FATCA", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes (the "foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Austria) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

8 SUBSCRIPTION AND SALE

8.1 General

Pursuant to a subscription agreement to be dated 23 April 2018 (the "**Subscription Agreement**") among the Issuer and Citigroup Global Markets Limited, Morgan Stanley & Co. International plc and UBS Limited (together, the "**Joint Lead Managers**"), the Issuer has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have agreed, subject to certain customary closing conditions, to purchase, the Notes on 25 April 2018. The Issuer has furthermore agreed to pay certain commissions to the Joint Lead Managers and to reimburse the Joint Lead Managers for certain expenses incurred in connection with the issue of the Notes.

The Subscription Agreement provides that the Joint Lead Managers under certain circumstances will be entitled to terminate the Subscription Agreement. In such event, no Notes will be delivered to investors. Furthermore, the Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

Some of the Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

There are no interests of natural and legal persons involved in the issue, including conflicting ones, that are material to the issue.

8.2 Selling Restrictions

Each Joint Lead Manager has represented and agreed that it will to the best of its knowledge and belief comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus or any offering material in relation to this Prospectus or the Notes and will obtain any consent, approval or permission required from it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries of Notes and neither the Issuer nor any other Joint Lead Manager shall have any responsibility therefor.

8.2.1 United States of America and its territories

The Notes have not been and will not be registered under the Securities Act. Except in certain transactions exempt from the registration requirements of the Securities Act, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the "**Regulation S**")).

Each Joint Lead Manager has represented and agreed that it will not offer, sell or deliver the Notes: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the commencement of the offering or the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the date of the commencement of the Offering and the Closing Date, except in either case in accordance with the Regulation S under the Securities Act. Terms used above have the meanings given to them in Regulation S."

Terms used in this paragraph have the meaning given to them by Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not

participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each Joint Lead Manager has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Bearer Notes which are subject to U.S. tax law requirements may not be offered, sold or delivered in the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

8.2.2 European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus in relation hereto to the public in that Relevant Member State other than to any legal entity which is a qualified investor as defined in the Prospectus Directive, provided that no such offer of Notes shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2014/51/EU), and includes any relevant implementing measure in that Relevant Member State. Please also refer to the section "*8.3 Restrictions on Marketing and Sales to Retail Investors*" below.

8.2.3 United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer.

8.2.4 Italy

Without prejudice to the section "*8.3 Restrictions on Marketing and Sales to Retail Investors*" below, the offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except to qualified investors (*investitori qualificati*) as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of May 1999 (the "**Issuers Regulation**") or in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Final Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy must be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") (in each case as amended from time to time); (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time, and (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

8.2.5 Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any

other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the offering, nor the Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority (FINMA), and investors in the Notes will not benefit from protection or supervision by such authority.

8.2.6 Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (x) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (y) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

8.2.7 Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore and that the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused any Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause any Notes to be made the subject of an invitation for subscription or purchase, and that it has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 of the SFA except:

- (a) to an institutional investor under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or
- (b) where no consideration is or will be given for the transfer; or
- (c) where the transfer is by operation of law; or
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

8.3 Restrictions on Marketing and Sales to Retail Investors

The Notes issued pursuant to the Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products ("**PRIPs Regulation**") became directly applicable in all member states of the European Economic Area ("**EEA**") and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs Regulation and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and the (ii) offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write-down or convertible securities such as the Notes.

The Joint Lead Managers are required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase any Notes (or a beneficial interest in the Notes) from the Issuer and/or the Joint Lead Managers each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Joint Lead Managers that:

- (1) it is not a retail investor;
- (2) whether or not it is subject to the Regulations it will not:
 - (A) sell or offer the Notes (or any beneficial interest therein) to retail investor; or
 - (B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail investor (in each case within the meaning of MiFID II). In selling or offering the Notes or making or approving communications relating to the Notes it may not rely on the limited exemptions set out in the PI Instrument; and
- (3) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

For the purposes of this provision: the expression "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (**Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive.

Each prospective investor further acknowledges that no key information document (**KID**) under PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs Regulation.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that:

- (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and
- (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate.

Any person subsequently offering, selling or recommending the Notes (a "**Distributor**") should take into consideration the manufacturers' target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

9 GENERAL INFORMATION

9.1 Authorisations

The issue of the Notes described in this Prospectus as well as the entering by the Issuer of all relevant documents in connection therewith has been duly approved by a resolution of the Management Board dated 6 April 2018.

9.2 Listing Expenses

The expenses for the listing of the Notes and admission to trading are expected to amount to approximately EUR 15,000.

9.3 Clearing System

Payments and transfers of the Notes will be settled through Euroclear Bank SA/NV and Clearstream Banking, société anonyme, Luxembourg.

The Notes have the following securities codes:

ISIN: XS1806328750
Common Code: 180632875
German Securities Code (WKN): A19Y83

9.4 Listing and Admission to Trading

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market with effect of 25 April 2018. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of MiFID II.

9.5 Documents on Display

For so long as any Note is outstanding, copies of the following documents may be inspected in physical form during normal business hours at the business address of the Issuer at Wiesingerstraße 4, 1010 Vienna, Austria:

- (a) the Articles of Association (Satzung) of the Issuer;
- (b) this Prospectus, any supplement to this Prospectus (if any) and any documents incorporated by reference in this Prospectus; and
- (c) the authorisations referred to under Authorisations above.

This Prospectus, any supplement to this Prospectus (if any) and the documents incorporated by reference in this Prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The day of such first publication is deemed to be the valid day of publication.

9.6 Yield to Maturity

There is no explicit yield to maturity. The Notes do not carry a fixed date for redemption and the Issuer is not obliged, and under certain circumstances is not permitted, to make payments on the Notes at the full stated rate.

9.7 Websites

For the avoidance of doubt the content of any website referred to in this Prospectus does not form part of this Prospectus, except where expressly stated otherwise.

9.8 Ratings

BAWAG Group's operating subsidiary BAWAG P.S.K. received the following rating from Moody's and Fitch:

	Moody's ¹⁾	Fitch ²⁾
Rating for long term obligations (senior)	A2 (Stable outlook)	A- (Outlook stable)
Rating for short term obligations (senior)	P-1	F-1

¹⁾ Moody's appends long-term obligation ratings at the following levels: Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C. To each generic rating category from Aa to Caa Moody's assigns the numerical modifiers "1", "2" and "3". The modifier "1" indicates that the bank is in the higher end of its letter-rating category, the modifier "2" indicates a mid-range ranking and the modifier "3" indicates that the bank is in the lower end of its letter-rating category. Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations and range from P-1, P-2, P-3 down to NP (Not Prime).

²⁾ Fitch appends long-term obligation ratings at the following levels: "AAA", "AA", "A", "BBB", "BB", "B", "CCC", "CC", "C". The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Fitch's short-term ratings are divided into several categories ranging from "F1", reflecting the strongest intrinsic capacity for timely payment of financial commitments, over categories "F2", "F3", "B", "C", "RD" to category "D" which indicates a broad-based default event for an entity, or the default of a short-term obligation.

The Notes are expected to be rated Ba1 by Moody's Deutschland GmbH.

Credit ratings included or referred to in this Prospectus have been issued by Moody's and Fitch, each of which is established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**"). A list of credit rating agencies registered under the CRA Regulation is available for viewing at <http://www.esma.europa.eu/page/List-registered-andcertified-CRAs>. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

A credit rating assesses the creditworthiness of an entity and informs an investor therefore about the probability of the entity being able to redeem invested capital. It is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

10 DOCUMENTS INCORPORATED BY REFERENCE

10.1 Documents Incorporated by Reference

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Prospectus to the extent set out in the paragraph entitled "10.2 Cross-Reference List of Documents Incorporated by Reference" below:

- (a) the audited consolidated financial statements for the financial year ended 31 December 2017; and
- (b) the audited consolidated financial statements for the financial year ended 31 December 2016;

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. For the avoidance of doubt, the content of any website referred to in this Prospectus does not form part of this Prospectus. Copies of all documents incorporated by reference in this Prospectus can be obtained from the Issuer's office as set out at the end of this Prospectus and from the Listing Agent in Luxembourg as set out at the end of this Prospectus. Copies of all documents incorporated by reference in this Prospectus are also available on the Luxembourg Stock Exchange's website (www.bourse.lu).

10.2 Cross-Reference List of Documents Incorporated by Reference

The following information is set forth in the audited consolidated financial statements for the financial year ended 31 December 2017:

	Page(s)
Audited Consolidated Financial Statements 2017	
Consolidated Profit or Loss Statement	65–66
Consolidated Statement of Comprehensive Income	67
Consolidated Statement of Financial Position	68–69
Consolidated Statement of Changes in Equity	70
Consolidated Statement of Cash Flows	71–73
Notes to the Consolidated Financial Statements	74–218
Auditor's Opinion	219–225

The following information is set forth in the audited consolidated financial statements for the financial year ended 31 December 2016:

	Page(s)
Audited Consolidated Financial Statements 2016	
Consolidated Profit or Loss Statement	53
Consolidated Statement of Comprehensive Income	54
Consolidated Statement of Financial Position	55–56
Consolidated Statement of Changes in Equity	57

Consolidated Statement of Cash Flows	58–59
Notes to the Consolidated Financial Statements	60–185
Auditor's Opinion	186–193

The information incorporated by reference that is not included in the cross-reference lists above, is considered as additional information and is either not required by the relevant annexes of the Commission Regulation (EC) No 809/2004, as amended, or covered elsewhere in this Prospectus.

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United Kingdom

Global Coordinator

Citigroup Global Markets Limited

Citigroup Centre
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Joint Lead Managers

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