BAWAG Group

CONSOLIDATED INTERIM REPORT Q1 2017

KEY FIGURES

Profit or loss statement (in EUR million)	**Q1 2017**	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	196.8	185.2	6.3	177.6	10.8
Net fee and commission income	49.8	50.9	(2.2)	46.9	6.2
Core revenues	**246.6**	**236.1**	**4.4**	**224.5**	**9.8**
Gains and losses on financial instruments and other operating income and expenses	18.4	14.2	29.6	22.9	(19.7)
Operating income	**265.0**	**250.3**	**5.9**	**247.4**	**7.1**
Operating expenses	**(107.2)**	**(104.0)**	**3.1**	**(121.3)**	**(11.6)**
Regulatory charges	(25.2)	(16.5)	52.7	(6.2)	>100
Total risk costs	(11.1)	(8.6)	29.1	(17.8)	(37.6)
Profit before tax	**122.6**	**121.6**	**0.8**	**103.9**	**18.0**
Income taxes	(26.5)	60.8	–	(0.1)	>100
Net profit	**96.1**	**182.3**	**(47.3)**	**103.8**	**(7.4)**

Performance ratios (figures annualized)	**Q1 2017**	Q1 2016	Change (pts)	Q4 2016	Change (pts)
Return on equity	12.1%	25.2%	(13.1)	13.5%	(1.4)
Return on equity (@12% CET1)	**14.8%**	**27.4%**	**(12.6)**	**16.5%**	**(1.7)**
Return on tangible equity	13.6%	28.5%	(14.9)	15.2%	(1.6)
Return on tangible equity (@12% CET1)	**17.2%**	**31.3%**	**(14.1)**	**19.2%**	**(2.0)**
Net interest margin	2.23%	2.32%	(0.09)	2.20%	0.03
Cost-income ratio	40.5%	41.6%	(1.1)	49.0%	(8.5)
Risk costs / loans and receivables	0.14%	0.13%	0.01	0.25%	(0.11)

Statement of financial position (in EUR million)	**Mar 2017**	Dec 2016	Change (%)	Mar 2016	Change (%)
Total assets	40,542	39,743	2.0	35,326	14.8
Financial assets	6,144	6,416	(4.2)	6,686	(8.1)
Customer loans and receivables	28,193	28,494	(1.1)	24,568	14.8
Customer deposits	25,448	25,998	(2.1)	21,075	20.7
Own issues	6,174	6,015	2.6	4,953	24.7
IFRS equity (after dividend)	3,227	3,134	3.0	2,820	14.4
IFRS tangible equity (after dividend)	2,862	2,773	3.2	2,491	14.9
Risk-weighted assets	17,125	17,140	(0.1)	16,409	4.4

Balance sheet ratios	**Mar 2017**	Dec 2016	Change (pts)	Mar 2016	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**15.7%**	**15.1%**	**0.6**	**13.8%**	**1.9**
Total capital ratio (fully loaded)	18.5%	18.0%	0.5	16.7%	1.8
Leverage ratio (fully loaded)	6.6%	6.5%	0.1	6.1%	0.5
Liquidity coverage ratio (LCR)	185%	138%	47	141%	44
NPL ratio	2.1%	2.0%	0.1	2.3%	(0.2)

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 62.

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The tables in this report may contain rounding differences.

Any data in this interim report is presented on the BAWAG Holding Group level (referred to as BAWAG P.S.K. throughout the document) unless stated otherwise.

LETTER FROM THE CEO

Dear Stakeholders,

After a record 2016, BAWAG P.S.K is off to a strong start in 2017. We delivered strong results in the first quarter, with profit before tax coming in at EUR 122.6 million, up 1% compared to the first quarter 2016 and 18% compared to fourth quarter 2016. The strong results were driven by higher operating income, up 6% compared to the first quarter 2016. Our higher operating expenses and risk costs were driven by fully absorbing our recent acquisitions that we completed during the fourth quarter 2016. We also had to front-load regulatory charges during the first quarter 2017, which accounts for approximately 80% of total regulatory expenses anticipated for the full year. Our operating expenses are expected to decrease as integration efforts from our recent acquisitions are realized through the course of the year. For comparison purposes, we focus on pre-tax profit as net profit during 2016 was significantly impacted by a one-time net tax benefit booked during the first quarter 2016. We expect our deferred tax assets on tax loss carryforwards to be fully absorbed over the course of the next 18–24 months; therefore, our pre-tax profit better represents the level of CET1 capital generation.

With a return on tangible equity (@12% CET1) of 17.2%, a cost-income ratio of 40.5% and a fully loaded CET1 ratio of 15.7%, BAWAG P.S.K. ranks amongst the most profitable, efficient and best capitalized banks across Europe. We continue to maintain a conservative risk profile characterized by disciplined underwriting, low leverage and a business model focused on developed markets in Austria and Western Europe. This is best reflected in a risk cost ratio of 14 basis points and a stable NPL ratio of 2.1%. At the same time, we further strengthened our capital position during the first quarter 2017, improving our fully loaded CET1 and total capital ratios to 15.7% (up 60 basis points) and 18.5% (up 50 basis points), respectively, compared to year-end 2016.

Our strong first quarter was also highlighted by solid operational developments and good progress on various strategic initiatives. The investments in our retail franchise continue to pay off. In the first quarter 2017, the segment BAWAG P.S.K. Retail recorded new originations of EUR 352 million, driven primarily by consumer and housing loans. In addition to growing our consumer loan franchise and further optimizing our product mix, we continued to make progress in transforming to digital and driving transactional productivity. Compared to the first quarter 2016, the number of online payment transactions increased by 8% and the share of online transactions via our mobile apps increased by 48%. During the same period, the number of over-the-counter transactions decreased by 10%, reflecting the changing composition of overall payments and the migration to digital, which represents the continued significant shift in customer behavior that we have observed over the past few years. Our complete line of products offered through digital channels makes us a leader in the marketplace, and we continue to enhance our customer experience and personalization features across our various distribution channels. Our efforts are being rewarded with increasing usage by our customers. As an example, a total of 61% of all logins to our eBanking come from mobile devices, up 7 points from March 2016.

easygroup, comprising Austria's #1 direct bank *easybank*, our auto and mobile leasing business, and our residential mortgage portfolios in Western Europe, further increased its customer base and executed on several strategic initiatives. The integration of our auto leasing platforms, together with various strategic partnerships, provides easygroup with yet another platform to expand its market presence, brand awareness and best-in-class service offering to a range of new customers and segments. During the first quarter 2017, we recorded strong originations of EUR 93 million in consumer auto leasing. By combining best-in-class practices from both BAWAG P.S.K. Leasing and Volksbank Leasing, we have created a highly efficient, customer-focused organization with the new *easyleasing* brand as our "one brand and one face" to the leasing market in Austria. In February 2017, we signed a deal to acquire the commercial card issuing business of SIX Payment Services Austria. The acquisition will not only be value accretive day 1, but we will look to continue using their partnerships and distribution channels to further grow our customer franchise in Austria and abroad. Overall, easygroup is well positioned to further develop its asset origination capabilities, both domestically and internationally.

The focus of the DACH Corporates & Public Sector business continues to be on maintaining and acquiring sustainable customer relationships, while staying disciplined on risk-adjusted pricing despite the competitive landscape. Our International Business segment continues to be focused on international corporate, real estate and portfolio financing outside the DACH region, serviced from our London branch office. Both segments DACH Corporates & Public Sector as well as International Business maintained their disciplined approach to originating new business with appropriate risk-adjusted returns in a highly competitive environment. Overall, the businesses originated EUR 472 million of new business during the first quarter.

In addition to our strong first quarter operating results, we are proud of the most recent Moody's upgrades to BAWAG P.S.K.'s ratings announced on 20 April 2017. Our long-term senior unsecured debt, issuer and deposit ratings were all raised by one notch to A2 while the positive outlook on these ratings was maintained. At the same time, the Bank's standalone rating (baseline credit assessment) as well as its subordinate debt rating were also upgraded by one notch to baa1 and Baa2, respectively. The upgrades make BAWAG P.S.K. the best-rated Austrian bank and reflect the continued strengthening of the Bank's financial fundamentals, in particular our capitalization, asset quality and sustained profitability. In addition, Moody's indicates further rating upside potential over the next 12–18 months. These most recent rating upgrades are a testament to the successful transformation of the Bank over the past few years. Taken together with our Fitch rating, this makes BAWAG P.S.K. one of the few banks across Europe with two ratings in the single A category.

In addition to the Moody's upgrades, *Global Finance*, one of the leading magazines for finance and capital market issues, awarded BAWAG P.S.K. as "Austria's Best Bank 2017" in March 2017. After having received The Banker's "Bank of the Year 2016" award for Austria in December 2016, we are again proud to be recognized for our successful development, which not only is a source of pride for management, but more importantly for our customers, employees and shareholders.

We continue to believe that the European banking landscape is undergoing a significant transformation and faces severe headwinds in the form of stagnant growth, low interest rates, increased regulatory costs, structurally inefficient business models and new market entrants in the form of Fintechs. We are ready to play a larger role in addressing these challenges and capitalizing on these unique opportunities.

The continued strong operating results in the first quarter 2017 reiterate that BAWAG P.S.K. is well positioned to win in this competitive and evolving European banking landscape. We will continue to maintain our low-risk strategy focused on the DACH region, with Austria as our foundation, while providing our customers with simple, transparent and best-in-class products and services. We are well on track to meet or exceed our full-year 2017 targets.

This success was only possible thanks to the dedication, trust and respect of our employees, customers and shareholders. I would like to take the opportunity to thank all of them for their continued unwavering support.

Anas Abuzaakouk, CEO of BAWAG P.S.K. AG

Interim Group Management Report

FINANCIAL REVIEW

BAWAG P.S.K. continued to successfully execute on its business plans in the first quarter 2017 and delivered strong results.

A few **key highlights** include:

- Profit before tax came in at EUR 122.6, up 0.8% compared to the first quarter 2016 and 18.0% compared to the fourth quarter 2016. These strong results were driven by higher operating income, up 5.9% compared to the first quarter 2016.

- Return on tangible equity (@12% CET1) was 17.2% in the first quarter 2017, already well above our full-year 2017 target of 16%.

- Net interest income rose 6.3% to EUR 196.8 million compared to the first quarter 2016, despite a continued low-interest rate environment.

- The net interest margin was up 3 basis points to 2.23% versus the fourth quarter 2016, reflecting our dedicated focus on risk-adjusted pricing and optimizing the liability structure.

- Our higher operating expenses and risk costs in the first quarter 2017 were driven by fully absorbing our recent acquisitions that we completed during the fourth quarter 2016. We also had to front-load regulatory charges during the first quarter 2017, which accounts for approximately 80% of total regulatory expenses anticipated for the full year.

- Despite higher operating expenses, the cost-income ratio in the first quarter 2017 further improved by 1.1 points to 40.5%. Our operating expenses are expected to decrease as integration efforts from our recent acquisitions are realized through the course of the year.

- We continue to maintain a conservative risk profile characterized by disciplined underwriting, low leverage and a business model focused on developed markets in Austria and Western Europe. This is best reflected in a risk cost ratio of 14 basis points and a stable NPL ratio of 2.1% as of March 2017.

- We further strengthened our capital position during the first quarter 2017, improving our fully loaded CET1 and total capital ratios to 15.7% (up 60 basis points) and 18.5% (up 50 basis points), respectively, compared to year-end 2016.

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in EUR million	**Q1 2017**	Q1 2016	Change (%)	Q4 2016	Change (%)
Interest income	282.0	266.5	5.8	241.4	16.8
Interest expense	(85.2)	(81.4)	4.7	(65.1)	30.9
Dividend income	0.0	0.1	(100)	1.3	(100)
Net interest income	**196.8**	**185.2**	**6.3**	**177.6**	**10.8**
Fee and commission income	71.8	73.6	(2.4)	71.1	1.0
Fee and commission expenses	(22.0)	(22.7)	(3.1)	(24.2)	(9.1)
Net fee and commission income	**49.8**	**50.9**	**(2.2)**	**46.9**	**6.2**
Core revenues	**246.6**	**236.1**	**4.4**	**224.5**	**9.8**
Gains and losses on financial instruments and other operating income and expenses[1]	18.4	14.2	29.6	22.9	(19.7)
Operating income	**265.0**	**250.3**	**5.9**	**247.4**	**7.1**
Operating expenses[1]	**(107.2)**	**(104.0)**	**3.1**	**(121.3)**	**(11.6)**
Regulatory charges	(25.2)	(16.5)	52.7	(6.2)	>100
Operating profit	**132.6**	**129.8**	**2.2**	**119.9**	**10.6**
Provisions and loan-loss provisions	(10.4)	(7.0)	48.6	(8.8)	18.2
Impairment losses	0.0	0.0	–	0.4	100
Operational risk	(0.7)	(1.6)	(56.3)	(9.4)	(92.6)
Share of the profit or loss of associates accounted for using the equity method	1.1	0.4	>100	1.8	(38.9)
Profit before tax	**122.6**	**121.6**	**0.8**	**103.9**	**18.0**
Income taxes	(26.5)	60.8	–	(0.1)	>100
Profit after tax	**96.1**	**182.4**	**(47.3)**	**103.8**	**(7.4)**
Non-controlling interests	0.0	(0.1)	(100)	0.0	–
Net profit	**96.1**	**182.3**	**(47.3)**	**103.8**	**(7.4)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 24.7 million for the first quarter 2017. The item Operating expenses includes regulatory charges in the amount of EUR 0.5 million for the first quarter 2017 as well. However, the Bank's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

Profit before tax increased by 0.8% and amounted to EUR 122.6 million in the first quarter 2017. The increase in operating income was partly offset by significantly higher regulatory charges.

Net interest income increased by EUR 11.6 million, or 6.3%, to EUR 196.8 million in the first quarter 2017.

Compared to the fourth quarter 2016, the **net interest margin** increased by 3 basis points to 2.23%.

Net fee and commission income decreased by 2.2% compared to the first quarter 2016 and amounted to EUR 49.8 million.

Gains and losses on financial instruments and other operating income and expenses increased by EUR 4.2 million, or 29.6%, to EUR 18.4 million in the first quarter 2017.

Operating expenses increased by EUR 3.2 million, or 3.1%, to EUR 107.2 million in the first quarter 2017, which was mainly driven by newly acquired businesses and restructuring expenses.

The **cost-income ratio** decreased by 1.1 points to 40.5% compared to the first quarter 2016.

Provisions and loan-loss provisions increased by EUR 3.4 million to EUR 10.4 million in the first quarter 2017.

Income taxes in the first quarter 2017 amounted to EUR 26.5 million. The figure shown for the first quarter 2016 is not comparable as it included a EUR 90.3 million one-time tax benefit.

Total assets

in EUR million	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Cash reserves	760	1,020	(25.5)	634	19.9
Financial assets	6,144	6,416	(4.2)	6,686	(8.1)
Available-for-sale	3,104	3,209	(3.3)	3,001	3.4
Held-to-maturity	2,300	2,353	(2.3)	2,313	(0.6)
Held for trading	546	652	(16.3)	1,119	(51.2)
Fair value through profit or loss	194	202	(4.0)	253	(23.3)
Loans and receivables	32,252	30,821	4.6	26,495	21.7
Customers	28,193	28,494	(1.1)	24,568	14.8
Debt instruments	1,066	692	54.0	912	16.9
Credit institutions	2,993	1,635	83.1	1,015	>100
Hedging derivatives	583	677	(13.9)	685	(14.9)
Tangible non-current assets	54	56	(3.6)	61	(11.5)
Intangible non-current assets	365	360	1.4	329	10.9
Tax assets for current taxes	11	10	10.0	18	(38.9)
Tax assets for deferred taxes	182	203	(10.3)	252	(27.8)
Other assets	192	180	6.7	166	15.7
Total assets	**40,542**	**39,743**	**2.0**	**35,326**	**14.8**

Financial assets decreased by EUR 272 million, or 4.2%, compared to year-end 2016, amounting to EUR 6,144 million as of 31 March 2017.

Loans and receivables with customers remained stable and stood at EUR 28,193 million as of 31 March 2017.

Tax assets for deferred taxes decreased by EUR 21 million net, or 10.3%, to EUR 182 million due to the usage of deferred tax assets on tax loss carryforwards.

Total liabilities and equity

in EUR million	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Total liabilities	**37,314**	**36,607**	**1.9**	**32,192**	**15.9**
Financial liabilities	35,782	34,694	3.1	30,384	17.8
Fair value through profit or loss	964	1,115	(13.5)	1,185	(18.6)
Issued securities	964	1,115	(13.5)	1,185	(18.6)
Held for trading	505	617	(18.2)	1,033	(51.1)
At amortized cost	34,313	32,962	4.1	28,166	21.8
Customers	25,448	25,998	(2.1)	21,075	20.7
Issued securities	5,210	4,900	6.3	3,768	38.3
Credit institutions	3,655	2,064	77.1	3,323	10.0
Financial liabilities associated with transferred assets	90	300	(70.0)	472	(80.9)
Valuation adjustment on interest rate risk hedged portfolios	175	223	(21.5)	273	(35.9)
Hedging derivatives	210	260	(19.2)	113	85.8
Provisions	397	404	(1.7)	422	(5.9)
Tax liabilities for current taxes	20	19	5.3	6	>100
Tax liabilities for deferred taxes	30	27	11.1	0	100
Other obligations	610	680	(10.3)	522	16.9
Total equity	**3,228**	**3,136**	**2.9**	**3,134**	**3.0**
Shareholders' equity	3,227	3,134	3.0	3,133	3.0
Non-controlling interests	1	2	(50.0)	1	–
Total liabilities and equity	**40,542**	**39,743**	**2.0**	**35,326**	**14.8**

Deposits from customers decreased by EUR 550 million, or 2.1%, to EUR 25,448 million as of 31 March 2017, but showed an increase of EUR 4,373 million, or 20.7%, compared to 31 March 2016.

Issued securities at amortized cost increased by EUR 310 million, or 6.3%, to EUR 5,210 million as of 31 March 2017.

Total equity increased by EUR 92 million, or 2.9%, to EUR 3,228 million as of 31 March 2017. The change was mainly driven by the net profit for the first quarter 2017.

CAPITAL AND LIQUIDITY POSITION

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. The fully loaded capital ratios have further improved since 31 December 2016, with the CET1 ratio increasing from 15.1% to 15.7% (up 0.6 points) and the total capital ratio increasing from 18.0% to 18.5% (up 0.5 points) as of 31 March 2017. At the same time, we maintained an RWA density of 42%, a conservative ratio relative to our European peers.

Our funding strategy continues to be based on our stable customer deposits, which represent two thirds of our funding base. In addition to our strong deposit base, we issued a EUR 500 million public sector covered bond in the first quarter 2017. In March 2017, we also participated in the ECB's targeted longer-term refinancing operations (TLTRO II), which provides 4-year funding at attractive rates.

BAWAG P.S.K. maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 185% at the end of the first quarter 2017. The increase in the LCR from the value as of 31 December 2016 (138%) is largely driven by short-term liquidity following the TLTRO II drawdown. This value is expected to normalize as the liquidity is invested in our business over the coming months.

KEY PERFORMANCE INDICATORS

in EUR million	**Q1 2017**	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	196.8	177.6	176.1	191.0	185.2
Net fee and commission income	49.8	46.9	43.1	52.1	50.9
Core revenues	246.6	224.5	219.2	243.1	236.1
Operating income	265.0	247.4	238.1	254.7	250.3
Operating expenses	(107.2)	(121.3)	(102.9)	(111.2)	(104.0)
Total risk costs	(11.1)	(17.8)	(9.0)	(7.2)	(8.6)
Profit before tax	122.6	103.9	122.2	122.7	121.6
Net profit	96.1	103.8	96.3	101.2	182.3
(figures annualized)					
Return on equity	12.1%	13.5%	13.0%	14.1%	25.2%
Return on equity (@12% CET1)	14.8%	16.5%	15.9%	16.4%	27.4%
Return on tangible equity	13.6%	15.2%	14.6%	16.0%	28.5%
Return on tangible equity (@12% CET1)	17.2%	19.2%	18.4%	18.9%	31.3%
Net interest margin	2.23%	2.20%	2.30%	2.44%	2.32%
Cost-income ratio	40.5%	49.0%	43.2%	43.7%	41.6%
Risk costs / loans and receivables	0.14%	0.25%	0.14%	0.11%	0.13%

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 62.

BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

Strategy

The BAWAG P.S.K. Retail segment services 1.8 million private and small business customers through our centralized branch network that we operate in cooperation with Austrian Post as well as our online and mobile sales channels supported by our customer care center. We are one of the leading omni-channel retail banks in Austria, offering simple, fair and transparent products and services through our physical and digital sales channels with a strong and well-recognized national brand.

In the first quarter 2017, we further invested in the development of our retail franchise to ensure high-quality experience and advice for our customers. We enhanced customer service quality and increased sales productivity due to our differentiated branch structure, creating more productive advisory teams and specialization in branches. We continued to invest in our digital customer experience and launched new digital banking features, such as a 100% automated digital opening process for brokerage accounts, adding to our fully digital set of banking products and services accessible by our customers in a simple manner anytime and anywhere.

First Quarter 2017 Business Review

The segment results reflect the success of our continued focus on the following value drivers:

- Growing our customer lending franchise
- Optimizing our product mix
- Driving organic productivity and inorganic growth
- Transforming to digital

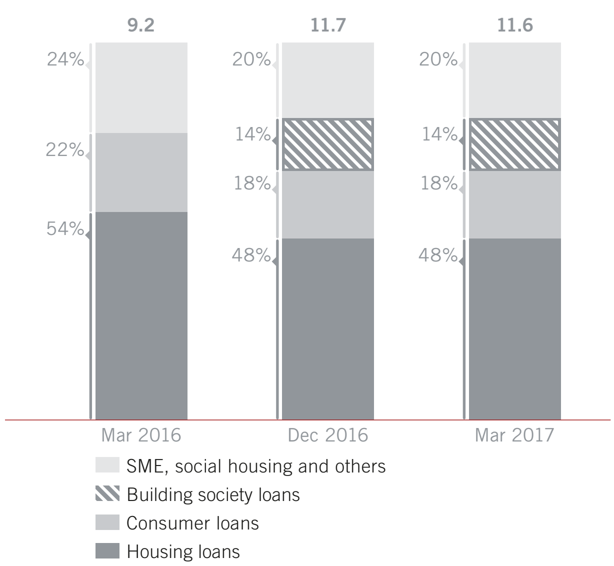
Growing our customer lending franchise

In the first quarter 2017, we continued to grow our consumer lending franchise while also capturing market share. At the end of March, our consumer loan market share was 11.1% (excluding easygroup), up 80 basis points since March 2016. Total new consumer loan originations in the first quarter amounted to EUR 136 million, with net asset growth of 8% compared to a year ago. These results were delivered while maintaining our disciplined underwriting standards.

Our instant credit decision in our branches, an automated workflow as well as the quality of our advisory and sales processes differentiate us from our competitors. Our continuous investment in data analytics provides a stable flow of leads for our sales force for cross-selling to current customers and new customer acquisition. Thus, we are in a better position to offer the right products at the right time in our customers' lifecycle, resulting in an approximately 20% higher average loan volume per loan compared to last year.

We continue to see high customer interest in housing loans and are investing in our housing finance product platform. The market for home ownership and financing continues to grow domestically, and we are expanding our share with a complete product set and increased distribution for this critical relationship product. In the first quarter 2017, we originated EUR 155 million of new business, up 47% from the prior year. The acquisition of start:bausparkasse in 2016 further strengthened our presence in this market.

Asset volume development (in EUR billion)

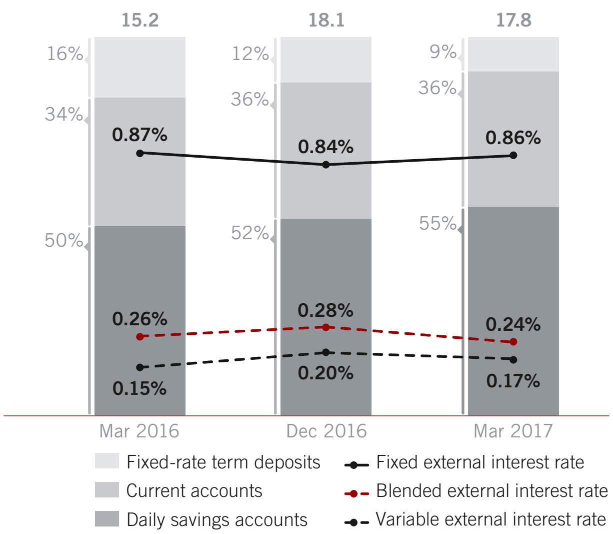


At the end of the first quarter 2017, the total assets of the BAWAG P.S.K. Retail segment stood at EUR 11.6 billion, with total new originations of EUR 352 million and net asset growth of 26% compared to March 2016, which includes the acquisition of start:bausparkasse and IMMO-BANK in December 2016.

Optimizing our product mix

On the liability side, we continued the shift from fixed-rate term deposits to current accounts and daily savings accounts, thus providing for lower funding costs, freeing up sales force capacity and providing our customers with products with greater functionality. Overall, the blended external interest rate on retail deposits stood at 0.24% at the end of the first quarter 2017. The increase of overall deposits compared to March 2016 reflects the acquisition of start:bausparkasse and IMMO-BANK.

Customer deposit volume development (in EUR billion)



We continue to reap the benefits of a major campaign around fee-generating products we launched a year ago. In February 2016, we launched our new KontoBoxes (current accounts) and the new models were well received by our customers, with a share of 60% of customers deciding for our premium offerings in the first quarter 2017.

We are continuously working on new value-added services for our KontoBox customers. As an example, we are steadily gathering new partners for our loyalty program "DANKESCHÖN," which rewards customers for the use of our products and payment cards. These value-added services are driving higher customer usage and have generated a stronger interest in premium current accounts that provide greater functionality and an improved customer experience. Furthermore, our online offering of current accounts was well received by our customers.

Driving organic productivity and inorganic growth

Our strong results in the BAWAG P.S.K. Retail segment are based on two pillars:

Driving efficiency in the core franchise

We have created a differentiated branch structure to concentrate advisory services in our core locations with the highest customer frequency, while maintaining service reach through a network of self-service devices and transaction points. This branch differentiation drives cost efficiency through better resource management and higher sales productivity. We also extended the local responsibility as well as broadened the product knowledge and sales capabilities of our advisors.

The strong focus of our branch employees on advisory and sales is also supported by the ongoing shift of basic transactions to digital and self-service channels. Compared to the first quarter 2016, the number of online payment transactions increased by 8% and the share of online transactions via our mobile apps increased by 48%. During the same period, the number of over-the-counter transactions decreased by 10%, reflecting the changing composition of overall payments and the migration to digital representing a significant shift in customer behavior.

Our focus on sales efficiency, training and processes has increased our sales productivity significantly. In the first quarter 2017, our product sales per advisor increased by 10% compared to the prior year.

Capitalizing on inorganic growth opportunities

We are continuously evaluating various inorganic growth opportunities. During the first quarter 2017, we worked on the integration and onboarding of our new customers resulting from the acquisitions of start:bausparkasse and IMMO-BANK in the last quarter 2016. The start:bausparkasse brand and distribution will enable us to provide a more fulsome housing loan product offering and provides us with access to a new segment of the market.

Transforming to digital

We are focused on building our vision of a financial services platform for all of our customers' financial activity. We continue to launch new online and mobile products and service offerings in order to better assist our customers in managing their financial affairs.

Throughout the first quarter 2017, we made progress in the extension of our online product and service offering. In January, we launched video legitimation (i.e. customer identification via a video chat) for our new current account customers. This convenient service allows a full online account opening process that can be performed anywhere and anytime with an online device in less than 10 minutes.

Furthermore, we broadened our digital offering with the launch of the online process for opening brokerage accounts via our eBanking at the end of February. This allows our customers to open a brokerage account within a few minutes and to start trading funds, bonds or stocks immediately.

Our complete line of products offered through digital channels makes us a leader in the marketplace, and we continue to enhance our customer experience and personalization features across our distribution channels. These efforts are being rewarded with increasing usage by our customers. As an example, a total of 61% of all logins to our eBanking come from mobile devices, up 7 points from March 2016. Also the Touch ID (fingerprint) login functionality for our mobile banking app, launched in December 2016 and early 2017, was well received by our customers with approximately 760,000 logins within the first weeks after the launch. Engagement with our customers allows us to better anticipate their needs and offer products and services at the appropriate time.

Outlook

Over the next quarters, we will continue to enhance our overall service, advisory quality and convenience. This will be done by continuing to differentiate our branch structure, investing and unifying our front-end sales advice application "GATE" and our leading digital services platform. We will also continue to further develop our mobile capabilities. As an example, as one of the first banks in Austria, we plan to launch video legitimation for our online loans in the second quarter in order to further strengthen our position as one of the leading omni-channel retail banks in Austria.

Financial Results

Income metrics (in EUR million)	**Q1 2017**	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	98.5	82.9	18.8	93.7	5.1
Net fee and commission income	37.7	35.6	5.9	34.8	8.3
Core revenues	**136.2**	**118.5**	**14.9**	**128.5**	**6.0**
Gains and losses on financial instruments	0.8	0.8	–	0.0	100
Other operating income and expenses	0.5	0.7	(28.6)	0.5	–
Operating income	**137.5**	**120.0**	**14.6**	**129.1**	**6.5**
Operating expenses	**(70.2)**	**(69.0)**	**1.7**	**(71.7)**	**(2.1)**
Regulatory charges	(13.4)	(4.1)	>100	0.0	100
Total risk costs	(10.8)	(7.9)	36.7	(14.2)	(23.9)
Profit before tax	**43.1**	**39.0**	**10.5**	**43.2**	**(0.2)**

Key ratios	**Q1 2017**	Q1 2016	Change (pts)	Q4 2016	Change (pts)
Pre-tax return on equity	17.1%	18.9%	(1.8)	18.5%	(1.4)
Pre-tax return on equity (@12% CET1)	20.9%	20.5%	0.4	22.6%	(1.7)
Net interest margin	3.36%	3.60%	(0.24)	3.71%	(0.35)
Cost-income ratio	51.1%	57.5%	(6.4)	55.5%	(4.4)
Risk costs / loans and receivables	0.37%	0.34%	0.03	0.54%	(0.17)
NPL ratio	1.9%	2.2%	(0.3)	1.8%	0.1

Business volumes (in EUR million)	**Mar 2017**	Dec 2016	Change (%)	Mar 2016	Change (%)
Assets	11,634	11,659	(0.2)	9,207	26.4
Risk-weighted assets	4,609	4,432	4.0	3,790	21.6
Customer deposits	17,841	18,058	4.0	15,254	21.6
Own issues	2,904	2,990	(2.9)	2,591	12.1

The segment achieved a profit before tax of EUR 43.1 million in the first quarter 2017, up 10.5% compared to the same period last year, and delivered a pre-tax return on equity (@12% CET1) of 20.9% and a cost-income ratio of 51.1%. Higher core revenues (up 14.9%) were mainly contributed by our recent acquisitions of start:bausparkasse and IMMO-BANK in December 2016. The increase in regulatory charges stems from the contributions to the deposit guarantee scheme, which represents full-year expenses.

Overall risk metrics reflect the high credit quality of the retail business, with a risk cost ratio of 37 basis points and an NPL ratio of 1.9% (down 30 basis points versus the first quarter 2016).

EASYGROUP

Strategy

easygroup is Austria's first direct banking group offering a full product suite, ranging from current accounts and savings products to credit cards, consumer and housing loans, auto leases and investment products.

Unlike traditional banks with physical distribution networks, easygroup operates in a lean manner, distributing products via digital and partner networks. We have become a market leader in innovation with the ability to quickly adapt to new market and consumer trends. We continuously explore new technologies in the banking space and incorporate the best features into our customer offerings. We strive to be the one-stop, easy-to-use, innovative financial services solution provider for our customers.

Consumer behavior has been trending towards easier-to-understand and simpler banking products that can be accessed anytime and anywhere. easygroup customers can access all banking products 24/7 via smartphones, tablets or their personal computers. For customers who require the "human touch," we are available six days a week via our call centers.

While offering our customers leading-edge technology and outstanding service, we have to remain competitively priced across all of our products. In today's market environment, we continuously focus on efficiency. We believe that cost efficiency is something an organization can never be complacent with and must always strive to improve. In doing so, we can continue to offer our customers the best-priced products.

easygroup has various go-to-market channels, ranging from direct banking to auto dealers and brokers, and strong partnerships with leading Austrian organizations. easygroup is comprised of

- the #1 rated direct bank in Austria, *easybank*;
- the #3 auto lessor in Austria, *easyleasing*; and
- our international retail business, consisting of EUR 3.1 billion of high-quality performing residential mortgages in Western Europe

easygroup is a cornerstone to the overall growth strategy for BAWAG P.S.K. Group. Our goal is to continue being the leading direct bank in Austria and to expand into larger Western markets with focus on the DACH region.

First Quarter 2017 Business Review

Compared to March 2016, easygroup's client base was up 8% to 423,000 customers with 712,000 accounts. easygroup ended the first quarter 2017 with deposits of EUR 3.8 billion, up 16% since March 2016. Our strong results are due to four key pillars:

- Growing our customer base and market share in Austria
- Building and maintaining customer loyalty
- Driving efficiency across the organization
- Expanding internationally into Western European markets

Growing our customer base and market share in Austria

easygroup continued to see an inflow of new customers and accounts in Austria. We saw an increase of 4% and 6%, respectively, compared to March 2016. Our customer growth is predominantly coming from our online channel and key partnerships. Partnerships such as those with ÖAMTC, Shell and Energie Steiermark give us indirect access to approximately half the Austrian population. As we go forward, we will look to leverage these relationships in order to further increase our customer base.

Overall, we recorded strong originations of EUR 104 million in the first quarter 2017. This is comprised primarily of consumer lending products such as auto leases, loans and mortgages. The performance was driven by our ability to provide customers with unique products, a best-in-class sales team, strong relationships and lean processes. We work with approximately 1,000 dealerships, representing roughly 50% of auto dealerships in Austria.

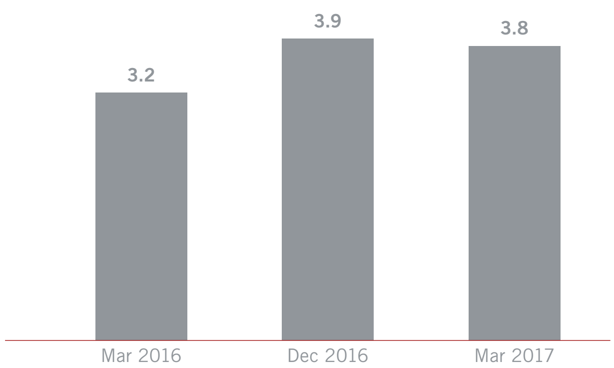
The segment's assets stood at EUR 4.3 billion at the end of the first quarter 2017, up 26% compared to March 2016. Both the domestic and international business continued to see strong growth.

In February 2017, we signed a deal to acquire the commercial card issuing business of SIX Payment Services Austria, better known as PayLife. The acquisition of the PayLife card issuing business will not only be accretive day 1, but we will look to continue using their partnerships and distribution channels to further grow our franchise in Austria and abroad.

Building and maintaining customer loyalty

easybank has always been determined to offer its customers the best banking experience. We believe this helps drive customer loyalty. Since March 2016, *easybank*'s number of current and savings accounts increased by 8%. Given the overall interest landscape, *easybank* reduced its external interest rate offered to customers, bringing our average deposit cost from 38 basis points in March 2016 to 16 basis points in March 2017.

Customer deposit volume development (in EUR billion)



Driving efficiency across the organization

During the first quarter 2017, we have continued to heavily invest in *easybank*'s digital architecture. Our goal is to create Austria's first truly digital bank – from front to back. Investing in digitizing the bank will not only benefit our bottom-line, but it will also provide noticeable benefits to our customers. All of our investments are aimed towards decreasing the friction currently required for consumers to take out banking products as well as decrease the processing time to deliver on customer demands.

Expanding internationally into Western European markets

In the first quarter 2017, we received clearance from the regulators to open a branch in Germany. This is a significant milestone in our organic international expansion plans. We view the German market as a great opportunity for growth within easygroup. By utilizing the lean infrastructure and digital culture that has been cultivated in Austria, we expect to tap into the much larger and growing German online market. With this regulatory milestone behind us, we plan on originating our first loan in Germany during the second half of the year.

Outlook

easygroup will continue to improve its user experience and make its customers' lives easier. We will leverage our existing customer base and partnerships across Austria, while also expanding internationally into Western markets.

The announced acquisition of the PayLife card issuing business is a huge win for the segment. The acquisition brings over half a million new customers, an elite credit card team and important distribution partnerships. Integrating and growing this business will be a core focus for 2017 and beyond.

Financial Results

Income metrics (in EUR million)	Q1 2017	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	35.3	30.6	15.4	26.0	35.8
Net fee and commission income	2.7	2.1	28.6	3.2	(15.6)
Core revenues	**38.0**	**32.7**	**16.2**	**29.2**	**30.1**
Gains and losses on financial instruments	0.0	0.0	–	0.0	–
Other operating income and expenses	(0.1)	(0.2)	50.0	(1.3)	92.3
Operating income	**37.9**	**32.5**	**16.6**	**27.9**	**35.8**
Operating expenses	**(7.9)**	**(8.2)**	**(3.7)**	**(7.3)**	**8.2**
Regulatory charges	(1.2)	(0.8)	50.0	0.1	–
Total risk costs	2.0	(0.4)	–	(3.0)	–
Profit before tax	**30.8**	**23.1**	**33.3**	**17.7**	**74.0**

Key ratios	Q1 2017	Q1 2016	Change (pts)	Q4 2016	Change (pts)
Pre-tax return on equity	30.6%	29.5%	1.1	17.3%	13.3
Pre-tax return on equity (@12% CET1)	37.4%	32.0%	5.4	21.2%	16.2
Net interest margin	3.24%	3.55%	(0.31)	2.98%	0.26
Cost-income ratio	20.8%	25.2%	(4.4)	26.2%	(5.4)
Risk costs / loans and receivables	(0.18)%	0.05%	(0.23)	0.32%	(0.50)
NPL ratio	3.0%	2.1%	0.9	2.1%	0.9

Business volumes (in EUR million)	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Assets	4,284	4,458	(3.9)	3,392	26.3
Risk-weighted assets	2,354	2,346	0.3	1,936	21.6
Customer deposits	3,754	3,893	(3.6)	3,228	16.3
Own issues	545	585	(6.8)	0	100

The segment achieved a profit before tax of EUR 30.8 million in the first quarter 2017, up 33.3% compared to the first quarter 2016, with a pre-tax return on equity (@12% CET1) of 37.4% and a cost-income ratio of 20.8%. The underlying performance reflects the purchase of a high-quality performing residential mortgage portfolio in Western Europe in December 2016. Quarter-over-quarter comparability is therefore limited.

DACH CORPORATES & PUBLIC SECTOR

Strategy

DACH Corporates & Public Sector comprises our corporate and public sector lending activities and other fee-driven financial services, mainly for Austrian customers. Select client relationships in neighboring countries (primarily Germany and Switzerland) are included as well.

We service our corporate and public sector customers with a full range of products focusing on financing, investment and payment service products and a dedicated team of sales professionals across Austria. Non-Austrian clients are either serviced entirely from Vienna or with the support of our London office in the case of syndicated deals.

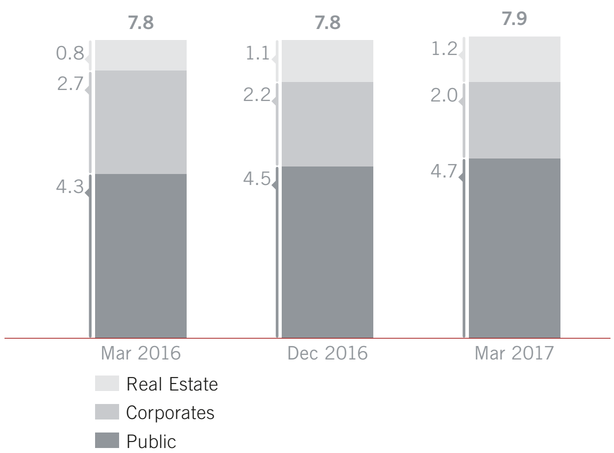
Our focus in Austria continues to be on maintaining and acquiring sustainable relationships while staying disciplined on pricing despite the competitive landscape. We recently entered into an originate-to-sell partnership with an insurance company, which will draw upon our strong origination capabilities and will drive fee income growth in the future.

A key focus area in 2017 will be to combine our domestic and international lending activities to exploit revenue synergies and identify new markets with a focus on building a DACH regional corporate lending platform. To ensure that we always meet the needs of our customers and improve existing solutions, we established a unit that manages daily product activities as well as product development.

First Quarter 2017 Business Review

Overall commercial loan demand in the DACH region continued to be low in the first quarter 2017. This is a result of several factors including flat output, lower corporate investment as well as macro risks across Europe. The lower demand and high liquidity available to banks led to further pressure on margins. Our business solution teams continued to elevate our strong client relationships across financing products as well as payments and cash management services, while aiming to maintain and increase strong risk-adjusted pricing for the Bank. New business volume followed the market trend. We recorded EUR 40 million of new lending volume during the first quarter in addition to normal renewals. Overall market share slightly decreased due to early redemptions of selected loans.

Asset volume development (in EUR billion)



The segment's assets remained stable at EUR 7.9 billion in the first quarter 2017. A decrease in the loan book from early redemptions was compensated by the integration of the commercial real estate portfolio of IMMO-BANK as well as increased short-term lending to municipalities and social insurance companies.

Net fee and commission income – mainly arising from payments activities of our clients – was stable compared to the first quarter 2016.

Outlook

We expect the market to grow slightly but remain very competitive. At the same time, we do not expect improved margins as overall liquidity in the market is supported by the ECB and investment demand is unlikely to recover in the near term. We have the flexibility and speed necessary for strategic transactions requiring complete debt solutions for clients. The acquisition of IMMO-BANK will provide further financing opportunities in the commercial real estate space in Austria, providing access to over 1,400 clients.

Financial Results

Income metrics (in EUR million)	Q1 2017	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	20.7	19.9	4.0	20.6	0.5
Net fee and commission income	10.0	9.8	2.0	10.0	–
Core revenues	**30.7**	**29.7**	**3.4**	**30.6**	**0.3**
Gains and losses on financial instruments	0.5	(0.5)	–	(0.1)	–
Other operating income and expenses	0.0	0.0	–	0.0	–
Operating income	**31.2**	**29.2**	**6.8**	**30.5**	**2.3**
Operating expenses	**(11.7)**	**(12.7)**	**(7.9)**	**(14.9)**	**(21.5)**
Total risk costs	1.7	(0.3)	–	1.7	–
Profit before tax	**21.2**	**16.2**	**30.9**	**17.3**	**22.5**

Key ratios	Q1 2017	Q1 2016	Change (pts)	Q4 2016	Change (pts)
Pre-tax return on equity	15.6%	12.2%	3.4	13.0%	2.6
Pre-tax return on equity (@12% CET1)	19.1%	13.2%	5.9	15.9%	3.2
Net interest margin	1.07%	1.03%	0.04	1.10%	(0.03)
Cost-income ratio	37.5%	43.5%	(6.0)	48.9%	(11.4)
Risk costs / loans and receivables	(0.09)%	0.02%	(0.11)	(0.09)%	0.00
NPL ratio	0.7%	1.1%	(0.4)	0.7%	0.0

Business volumes (in EUR million)	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Assets	7,891	7,812	1.0	7,757	1.7
Risk-weighted assets	2,790	2,916	(4.3)	3,001	(7.0)
Customer deposits (incl. other refinancing)	6,510	5,284	23.2	4,777	36.3
Own issues	696	202	>100	207	>100

The segment contributed EUR 21.2 million to the Bank's profit before tax, up 30.9% compared to the first quarter 2016, and delivered a pre-tax return on equity (@12% CET1) of 19.1%. Core revenues increased by 3.4% to EUR 30.7 million compared to the same period last year, driven by the acquisition of IMMO-BANK in December 2016. This mitigated the effect of continuing pressure on margins and low new business volume. The overall quality of the portfolio further improved compared to the first quarter 2016, with an NPL ratio of 0.7% (down 40 basis points). This is a reflection of the prior years' de-risking activities and the overall high asset quality.

INTERNATIONAL BUSINESS

Strategy

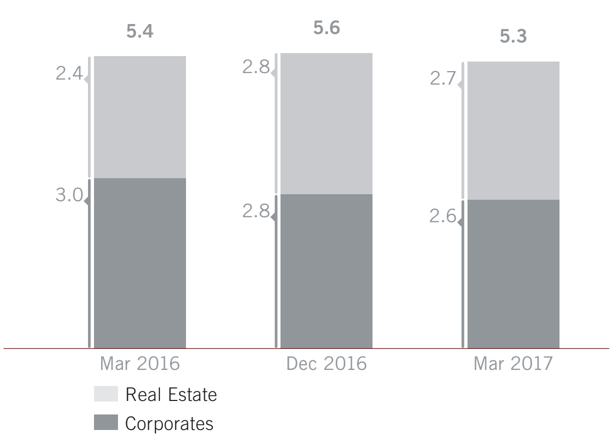
The segment International Business includes our international corporate, real estate and portfolio lending outside of the DACH region, with a focus on developed countries within Western Europe as well as the United States.

The international corporates portfolio consists primarily of lending to free cash flow generating companies with defensive business profiles and appropriate capital structures in recession-resilient industries. Our international commercial real estate portfolio focuses on senior loan positions in cash flow generating properties. We have limited exposure in land, development and construction financings.

First Quarter 2017 Business Review

We continued to focus on our loan origination opportunities primarily in select developed Western countries and generated new business of EUR 432 million in the first quarter 2017.

Asset volume development (in EUR billion)



Our **international corporate lending business** continued to be faced with early redemptions arising from competitive market conditions in a low-interest rate environment. As a consequence, the portfolio experienced an asset volume decrease of 14% to EUR 2.6 billion as of March 2017 compared to March 2016. Our new business volume primarily consists of high-quality loans with a general focus on defensive industries. Overall blended net leverage of the companies in our international corporate business was approximately 3.9x and for the tranches BAWAG P.S.K. lends to 3.1x.

Our **international real estate financing business** was, to a lesser extent, also affected by an increased volume of early redemptions and currency movements. However, the total asset volume increased by 13% to EUR 2.7 billion compared to March 2016. Transaction diversification continued across our commercial real estate lending business on a geographic, asset and industry basis. These transactions focused primarily on traditional real estate financings with attractive LTVs, strong cash flow, shorter weighted expected maturities and solid covenant characteristics. Overall portfolio performance and credit trends remained solid with some shortening of duration as loan amortizations increase ahead of original projections. We are also active in portfolio financing with low loan-to-value (LTV) and low loan-to-cost (LTC) positions against a more diversified portfolio of cash generating real estate assets. The portfolio has strong collateral coverage characteristics (average LTV <60%), provides strong cash flows and is structured to perform well in stressed market conditions, with shorter average durations.

Outlook

We see market conditions with a similar performance to the previous year and therefore expect a stable volume by the end of 2017 compared to year-end 2016. Margins will largely remain stable, although competition for defensive, high-quality transactions will continue to remain high.

Financial Results

Income metrics (in EUR million)	Q1 2017	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	33.4	33.3	0.3	32.2	3.7
Net fee and commission income	0.0	0.0	–	0.0	–
Core revenues	**33.4**	**33.3**	**0.3**	**32.2**	**3.7**
Gains and losses on financial instruments	0.3	(0.9)	–	(0.5)	–
Other operating income and expenses	0.0	0.0	–	0.0	–
Operating income	**33.7**	**32.4**	**4.0**	**31.7**	**6.3**
Operating expenses	**(8.4)**	**(6.9)**	**21.7**	**(9.9)**	**(15.2)**
Total risk costs	(3.0)	0.0	(100)	(1.9)	(57.9)
Profit before tax	**22.3**	**25.5**	**(12.5)**	**19.9**	**12.1**

Key ratios	Q1 2017	Q1 2016	Change (pts)	Q4 2016	Change (pts)
Pre-tax return on equity	15.9%	17.6%	(1.7)	14.5%	1.4
Pre-tax return on equity (@12% CET1)	19.5%	19.1%	0.4	17.8%	1.7
Net interest margin	2.45%	2.40%	0.05	2.43%	0.02
Cost-income ratio	24.9%	21.3%	3.6	31.2%	(6.3)
Risk costs / loans and receivables	0.23%	0.00%	0.23	0.15%	0.08
NPL ratio	0.3%	0.0%	0.3	0.0%	0.3

Business volumes (in EUR million)	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Assets	5,327	5,634	(5.4)	5,414	(1.6)
Risk-weighted assets	4,112	4,169	(1.4)	4,393	(6.4)

The segment contributed EUR 22.3 million to the Bank's profit before tax in the first quarter 2017, down 12.5% compared to the same period last year due to higher operating expenses and risk costs, while still delivering a pre-tax return on equity (@12% CET1) of 19.5%. Despite higher-than-anticipated early redemptions and a general pressure on margins, core revenues remained stable. Similar to the DACH corporate lending business, the international business is characterized by high-quality assets and a low NPL ratio of 0.3%.

TREASURY SERVICES & MARKETS

Strategy

Treasury Services & Markets acts as a service center for the Bank’s customers, subsidiaries and partners through market execution as well as selective investment activities.

Among the key responsibilities of Treasury Services & Markets is the management of the Bank's liquidity from the core funding franchise in available-for-sale and held-to-maturity portfolios, including the liquidity reserve as well as certain hedging positions. The investment strategy continues to focus on investment grade securities primarily representing secured and unsecured bonds of financials in core Europe and the United States as well as select sovereign bond exposures and high-quality CLOs in order to maintain solid diversification.

First Quarter 2017 Business Review

During the first quarter 2017, we continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our available-for-sale portfolio to preserve the flexibility of redeployment into customer loans, or other balance sheet management activities.

As of 31 March 2017, Treasury Services & Markets managed an investment portfolio of EUR 5.6 billion, up 8% compared to the first quarter 2016, and a liquidity reserve of EUR 2.8 billion. The investment portfolio’s average maturity was five years, comprised 96% of investment grade rated securities, of which 85% were rated in the single A category or higher. Exposure to CEE represented less than 2% of the portfolio and was limited to select bonds, with 100% rated in the single A equivalent category or better. As of 31 March 2017, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. This overall composition reflects the Bank’s strategy to maintain high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Outlook

Treasury Services & Markets will continue to focus on keeping streamlined processes and simple products in support of the Bank’s core operating activities and customer needs. Ample liquidity supply and asset purchases by the ECB as well as elevated political risks will remain important factors in financial markets. However, we are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial Results

Income metrics (in EUR million)	Q1 2017	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	12.6	14.4	(12.5)	12.9	(2.3)
Net fee and commission income	0.0	0.0	–	0.0	–
Core revenues	**12.6**	**14.4**	**(12.5)**	**12.9**	**(2.3)**
Gains and losses on financial instruments	5.1	(0.8)	–	0.8	>100
Other operating income and expenses	0.0	0.0	–	0.0	–
Operating income	**17.7**	**13.6**	**30.1**	**13.7**	**29.2**
Operating expenses	**(4.0)**	**(4.2)**	**(4.8)**	**(4.3)**	**(7.0)**
Total risk costs	(0.1)	0.0	100	0.0	100
Profit before tax	**13.6**	**9.4**	**44.7**	**9.4**	**44.7**

Key ratios	Q1 2017	Q1 2016	Change (pts)	Q4 2016	Change (pts)
Pre-tax return on equity	14.0%	11.0%	3.0	10.2%	3.8
Pre-tax return on equity (@12% CET1)	17.1%	11.9%	5.2	12.5%	4.6
Net interest margin	0.88%	1.00%	(0.12)	0.93%	(0.05)
Cost-income ratio	22.6%	30.9%	(8.3)	31.4%	(8.8)

Business volumes (in EUR million)	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Assets and liquidity reserve	8,405	6,691	25.6	5,984	40.5
Risk-weighted assets	2,024	2,031	(0.3)	1,828	10.7
Own issues and other liabilities	2,510	2,847	(11.8)	3,368	(25.5)

The segment contributed EUR 13.6 million to the Bank's profit before tax in the first quarter 2017, up 44.7% compared to the same period in 2016, and delivered a pre-tax return on equity (@12% CET1) of 17.1%. Operating income was up 30.1%, supported by higher gains from financial instruments.

CORPORATE CENTER

First Quarter 2017 Review

The Corporate Center contains central functions for the entire Bank. Market values from derivatives represent the largest portion of assets and liabilities. The Bank's equity is also shown here.

In order to better assess our business segments, non-operational items such as restructuring expenses, contributions to the single resolution fund, the bank levy and corporate taxes are shown in the Corporate Center.

The one-time positive tax effect in the first quarter 2016 did not repeat in the first quarter 2017, thus resulting in a significant difference in the net profit line.

Other assets decreased due to lower market values from derivatives while risk-weighted assets remained largely stable during the reporting period. Equity increased by 3.0% compared to year-end 2016.

Financial Results

Income metrics (in EUR million)	**Q1 2017**	Q1 2016	Change (%)	Q4 2016	Change (%)
Net interest income	(3.7)	4.1	–	(7.8)	52.6
Net fee and commission income	(0.6)	3.4	–	(1.2)	50.0
Core revenues	**(4.3)**	**7.5**	**–**	**(9.0)**	**52.2**
Gains and losses on financial instruments	11.3	14.9	(24.2)	(23.6)	–
Other operating income and expenses	0.0	0.2	(100)	47.2	(100)
Operating income	**7.0**	**22.6**	**(69.0)**	**14.6**	**(52.1)**
Operating expenses	**(5.0)**	**(3.0)**	**66.7**	**(13.2)**	**(62.1)**
Regulatory charges	(10.6)	(11.5)	(7.8)	(6.3)	68.3
Total risk costs	(0.9)	0.0	100	(0.4)	>100
Share of the profit or loss of associates accounted for using the equity method	1.1	0.3	>100	1.8	(38.9)
Profit before tax	**(8.4)**	**8.4**	**–**	**(3.5)**	**>(100)**
Income taxes	(26.5)	60.8	–	(0.1)	>(100)
Non-controlling interests	0.0	(0.1)	100	0.0	–
Net profit	**(34.8)**	**69.1**	**–**	**(3.6)**	**>(100)**

Volumes (in EUR million)	**Mar 2017**	Dec 2016	Change (%)	Mar 2016	Change (%)
Other assets	3,001	3,489	(14.0)	3,572	(16.0)
Risk-weighted assets	1,236	1,246	(0.8)	1,461	(15.4)
Equity	3,227	3,134	3.0	3,133	3.0
Other liabilities	2,553	2,748	(7.1)	2,765	(7.7)

RISK MANAGEMENT

With respect to the explanations on financial and legal risks at BAWAG P.S.K. as well as the goals and methods of risk management, please read the information in the Notes section.

OUTLOOK

Our **key financial targets for 2017** – as outlined in our Consolidated Annual Report 2016 – are as follows:

- Profit before tax >EUR 500 million
- Return on equity (@12% CET1) >15%
- Return on tangible equity (@12% CET1) >16%
- Cost-income ratio <43%
- Fully loaded CET1 ratio >12%
- Fully loaded leverage ratio >5%

BAWAG P.S.K. delivered strong results in the first quarter 2017. We anticipate that this trend will continue throughout the remainder of the year. All key financial targets are expected to be met or exceeded from today's perspective.

Consolidated Interim Financial Statements

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	Q1 2017	Q1 2016
Interest income		282.0	266.5
Interest expense		(85.2)	(81.4)
Dividend income		–	0.1
Net interest income	**[1]**	**196.8**	**185.2**
Fee and commission income		71.8	73.6
Fee and commission expenses		(22.0)	(22.7)
Net fee and commission income	**[2]**	**49.8**	**50.9**
Gains and losses on financial assets and liabilities	[3]	18.0	13.5
Other operating income and expenses		(24.3)	(15.3)
Operating expenses	[4]	(107.7)	(104.4)
Provisions and impairment losses	[5]	(11.1)	(8.7)
Share of the profit or loss of associates accounted for using the equity method		1.1	0.4
Profit before tax		**122.6**	**121.6**
Income taxes		(26.5)	60.8
Profit after tax		**96.1**	**182.4**
Thereof attributable to non-controlling interests		0.0	0.1
Thereof attributable to owners of the parent		**96.1**	**182.3**

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund) in the amount of EUR 24.7 million (Jan–Mar 2016: EUR 16.0 million). Expenses for the deposit guarantee scheme and for the single resolution fund comprise the total expected charges for 2017. The bank levy included in this item amounts to EUR 1.2 million for the first quarter 2017 compared to EUR 5.5 million according to the old bank levy regime for the first quarter 2016.

The item Operating expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of EUR 0.5 million (Jan–Mar 2016: EUR 0.4 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	[Notes]	Q1 2017	Q1 2016
Profit after tax		**96.1**	**182.4**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gain/loss on defined benefit plans	[12]	–	(5.5)
Income tax on items that will not be reclassified		–	1.4
Total items that will not be reclassified to profit or loss		**–**	**(4.1)**
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge reserve		(12.5)	7.1
thereof transferred to profit (-) or loss (+)		(1.0)	–
Available-for-sale reserve		8.1	(6.1)
thereof transferred to profit (-) or loss (+)		1.0	–
Income tax relating to items that may be reclassified		1.1	(1.9)
Total items that may be reclassified subsequently to profit or loss		**(3.3)**	**(0.9)**
Total comprehensive income, net of tax		**92.8**	**177.4**
Thereof attributable to non-controlling interests		0.0	0.1
Thereof attributable to owners of the parent		**92.8**	**177.3**

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	Mar 2017	Dec 2016
Cash reserves		760	1,020
Financial assets designated at fair value through profit or loss		193	202
Available-for-sale financial assets	[6]	3,104	3,209
Held-to-maturity investments		2,300	2,353
Financial assets held for trading	[7]	546	652
Loans and receivables	[8]	32,252	30,821
Customers		28,193	28,494
Credit institutions		2,993	1,635
Securities		1,066	692
Hedging derivatives		583	677
Property, plant and equipment		51	53
Investment properties		3	3
Goodwill		58	58
Brand name and customer relationships		173	174
Software and other intangible assets		134	128
Tax assets for current taxes		11	10
Tax assets for deferred taxes		182	203
Associates recognized at equity		45	45
Other assets		147	135
Total assets		**40,542**	**39,743**

The line items Goodwill, Brand name and customer relationships, and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 16 of this Consolidated Interim Report. The Group took a EUR 2.0 billion tranche in the TLTRO II (targeted longer-term refinancing operations) in late March 2017. The funding is shown in financial liabilities at amortized cost to credit institutions and subsequently led to an increase in loans and receivables from credit institutions on the asset side.

Total liabilities and equity

in EUR million	[Notes]	Mar 2017	Dec 2016
Total liabilities		**37,314**	**36,607**
Financial liabilities designated at fair value through profit or loss	[9]	964	1,115
Financial liabilities held for trading	[10]	505	617
Financial liabilities at amortized cost	[11]	34,313	32,962
Customers		25,448	25,998
Issued bonds, subordinated and supplementary capital		5,210	4,900
Credit institutions		3,655	2,064
Financial liabilities associated with transferred assets		90	300
Valuation adjustment on interest rate risk hedged portfolios		175	223
Hedging derivatives		210	260
Provisions	[12]	397	404
Tax liabilities for current taxes		20	19
Tax liabilities for deferred taxes		30	27
Other obligations		610	680
Total equity		**3,228**	**3,136**
Equity attributable to the owners of the parent		3,227	3,134
Non-controlling interests		1	2
Total liabilities and equity		**40,542**	**39,743**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2016	**100**	**1,094**	**1,793**	**41**	**–**	**(72)**	**2,956**	**1**	**2,957**
Total comprehensive income	–	–	182	(6)	5	(4)	177	–	177
Balance as of 31.03.2016	**100**	**1,094**	**1,975**	**35**	**5**	**(76)**	**3,133**	**1**	**3,134**
Balance as of 01.01.2017	**100**	**1,094**	**1,967**	**39**	**6**	**(73)**	**3,134**	**1**	**3,135**
Total comprehensive income	–	–	96	6	(9)	–	93	0	93
Balance as of 31.03.2017	**100**	**1,094**	**2,063**	**45**	**(3)**	**(73)**	**3,227**	**1**	**3,228**

CONDENSED CASH FLOW STATEMENT

in EUR million	Q1 2017	Q1 2016
Cash and cash equivalents at end of previous period	**1,020**	**809**
Profit (after tax, before non-controlling interests)	96	182
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(207)	(162)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(487)	(183)
Interest receipts	309	308
Interest paid	(88)	(83)
Dividend receipts	–	0
Net cash from operating activities	**(377)**	**62**
Cash receipt from sales of subsidiaries	–	91
Cash receipts from sales of		
Financial investments	502	484
Tangible and intangible non-current assets	0	0
Cash paid for		
Financial investments	(369)	(792)
Tangible and intangible non-current assets	(12)	(8)
Net cash used in investing activities	**121**	**(225)**
Others	(4)	(12)
Net cash from financing activities	**(4)**	**(12)**
Cash and cash equivalents at end of period	**760**	**634**

NOTES

The consolidated interim financial statements of BAWAG Holding Group (referred to as BAWAG P.S.K. throughout the document unless stated otherwise) as of 31 March 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC) to the extent adopted by the EU.

These interim financial statements for the first quarter 2017 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing this interim financial report are the same as those used for the preparation of the consolidated financial statements as of 31 December 2016.

Since January 2016, BAWAG P.S.K. has applied cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

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

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

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in the first quarter 2017, fair value losses in the amount of EUR 12.5 million would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG P.S.K. had not applied cash flow hedge accounting.

As of 31 March 2017, no new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2017.

The valuation principles as of 31 December 2016 were applied again.

As of 31 March 2017, the Group consists of 36 (31 December 2016: 36) fully consolidated entities and 2 (31 December 2016: 2) entities that are accounted for using the equity method in Austria and abroad.

The interim financial statements for the first quarter 2017 were not audited or reviewed by an external auditor.

The tables in this report may contain rounding differences.

CLAIM AGAINST THE CITY OF LINZ

As no material changes have occurred since year-end 2016, we refer to the Notes to the consolidated financial statements as of 31 December 2016.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 I Net interest income

in EUR million	Q1 2017	Q1 2016
Interest income	282.0	266.5
Interest expense	(85.2)	(81.4)
Dividend income	–	0.1
Net interest income	**196.8**	**185.2**

2 I Net fee and commission income

in EUR million	Q1 2017	Q1 2016
Fee and commission income	**71.8**	**73.6**
Payment transfers	42.9	41.9
Lending	8.4	7.4
Securities and custody business	11.7	10.0
Other	8.8	14.3
Fee and commission expenses	**(22.0)**	**(22.7)**
Payment transfers	(8.7)	(9.1)
Other	(13.3)	(13.6)
Net fee and commission income	**49.8**	**50.9**

3 | Gains and losses on financial assets and liabilities

in EUR million	Q1 2017	Q1 2016
Realized gains on sales of subsidiaries and securities	5.1	13.3
Fair value gains	10.6	2.2
Gains from fair value hedge accounting	2.0	2.9
Others	0.3	(4.9)
Gains and losses on financial assets and liabilities	**18.0**	**13.5**

4 | Operating expenses

in EUR million	Q1 2017	Q1 2016
Staff costs	(60.8)	(57.9)
Other administrative expenses	(34.6)	(37.1)
Depreciation and amortization on tangible and intangible assets	(9.3)	(9.4)
Restructuring and other one-off expenses	(3.0)	0.0
Operating expenses	**(107.7)**	**(104.4)**

The line item Restructuring and other one-off expenses, totaling minus EUR 3.0 million in the first quarter 2017, mainly includes expenses for restructuring costs.

5 | Provisions and impairment losses

in EUR million	Q1 2017	Q1 2016
Loan-loss provisions and changes in provisions for off-balance credit risk	(10.4)	(7.0)
Provisions and expenses for operational risk	(0.7)	(1.7)
Impairment losses on financial assets	0.0	0.0
Provisions and impairment losses	**(11.1)**	**(8.7)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Available-for-sale financial assets

in EUR million	Mar 2017	Dec 2016
Bonds	**3,023**	**3,129**
Bonds of other issuers	2,556	2,619
Public sector debt instruments	467	510
Subsidiaries and other equity investments	**81**	**80**
Available-for-sale financial assets	**3,104**	**3,209**

7 | Financial assets held for trading

in EUR million	Mar 2017	Dec 2016
Derivatives in trading book	214	230
Derivatives in banking book	332	422
Financial assets held for trading	**546**	**652**

8 | Loans and receivables

Mar 2017 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Receivables from customers	**27,828**	**581**	**(141)**	**(75)**	**28,193**
thereof IBNR portfolio provision[1]	–	–	–	(50)	(50)
Securities	**1,066**	**–**	**–**	**–**	**1,066**
Receivables from credit institutions	**2,993**	**–**	**–**	**–**	**2,993**
Total	**31,887**	**581**	**(141)**	**(75)**	**32,252**

1) Allowance for incurred but not reported losses.

Dec 2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Receivables from customers	**28,152**	**547**	**(129)**	**(76)**	**28,494**
thereof IBNR portfolio provision[1]	–	–	–	(54)	(54)
Securities	**692**	**–**	**–**	**–**	**692**
Receivables from credit institutions	**1,635**	**–**	**–**	**–**	**1,635**
Total	**30,479**	**547**	**(129)**	**(76)**	**30,821**

1) Allowance for incurred but not reported losses.

The increase in the line item receivables from credit institutions can be explained by the Bank's participation in the TLTRO II in the amount of EUR 2.0 billion. For further details, please refer to the explanations on the statement of financial position.

The following breakdown depicts the composition of the item Loans and receivables according to the Group's segments:

Mar 2017 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	11,462	169	(93)	(22)	11,516
easygroup	4,251	33	(17)	(3)	4,264
DACH Corporates & Public Sector	7,648	35	(23)	0	7,660
International Business	5,097	13	(4)	–	5,106
Treasury Services & Markets	3,337	–	–	–	3,337
Corporate Center	92	331	(4)	(50)	369
Total	**31,887**	**581**	**(141)**	**(75)**	**32,252**

Dec 2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	11,499	160	(84)	(19)	11,556
easygroup	4,426	32	(20)	(3)	4,435
DACH Corporates & Public Sector	7,568	34	(21)	0	7,581
International Business	5,392	–	–	–	5,392
Treasury Services & Markets	1,496	–	–	–	1,496
Corporate Center	99	321	(5)	(54)	361
Total	**30,479**	**547**	**(129)**	**(76)**	**30,821**

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

Receivables from customers – Breakdown by credit type

in EUR million	**Mar 2017**	Dec 2016
Loans	24,810	25,300
Current accounts	1,324	1,325
Finance leases	1,177	1,202
Cash advances	882	667
Receivables from customers	**28,193**	**28,494**

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

in EUR million	Mar 2017	Dec 2016
Issued debt securities	856	1,006
Subordinated and supplementary capital	108	109
Financial liabilities designated at fair value through profit or loss	**964**	**1,115**

10 | Financial liabilities held for trading

in EUR million	Mar 2017	Dec 2016
Derivatives trading book	131	143
Derivatives banking book	374	474
Financial liabilities held for trading	**505**	**617**

11 | Financial liabilities measured at amortized cost

in EUR million	Mar 2017	Dec 2016
Deposits from banks	**3,655**	**2,064**
Deposits from customers	**25,448**	**25,998**
Savings deposits – fixed interest rates	1,468	1,928
Savings deposits – variable interest rates	6,636	6,372
Deposit accounts	5,884	6,074
Current accounts – Retail	7,394	7,341
Current accounts – Corporates	2,639	2,505
Other deposits[1)]	1,427	1,778
Issued bonds, subordinated and supplementary capital	**5,210**	**4,900**
Issued debt securities and other securitized liabilities	4,750	4,436
Subordinated and supplementary capital	460	464
Financial liabilities measured at amortized cost	**34,313**	**32,962**

1) Primarily time deposits.

As of 31 March 2017, the line item deposits from banks includes a tranche in the TLTRO II in the amount of EUR 2.0 billion. For further details, please refer to the explanations on the statement of financial position.

12 | Provisions

in EUR million	Mar 2017	Dec 2016
Provisions for social capital	383	386
Anticipated losses from pending business	7	8
Other items including legal risks	7	10
Provisions	**397**	**404**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method.

13 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Mar 2017 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	–	753	48	–	138
Securities	–	61	–	21	–
Other assets (incl. derivatives)	48	0	5	–	–
Financial liabilities – customers	–	0	11	114	8
Other liabilities (incl. derivatives)	–	–	–	1	–
Guarantees provided	–	–	–	–	1
Interest income	–	7.8	0.2	0.0	0.4
Interest expenses	–	2.3	0.0	0.3	0.0
Net fee and commission income	–	(0.1)	0.0	2.4	0.1

Dec 2016 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	6	808	48	0	139
Securities	–	43	–	20	–
Other assets (incl. derivatives)	36	0	6	–	–
Financial liabilities – customers	–	0	11	113	10
Other liabilities (incl. derivatives)	–	0	–	1	–
Guarantees provided	–	–	–	–	1
Interest income	–	31.6	1.7	0.3	2.6
Interest expenses	0.0	0.8	0.0	1.5	0.0
Net fee and commission income	0.0	–	0.0	18.0	0.6

Mar 2016 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	–	865	56	–	144
Securities	–	–	–	21	–
Other assets (incl. derivatives)	26	1	7	–	–
Financial liabilities – customers	–	0	13	106	11
Other liabilities (incl. derivatives)	–	0	–	2	–
Guarantees provided	–	–	0	–	2
Interest income	–	8.7	0.4	0.0	0.7
Interest expenses	–	–	0.0	0.4	0.0
Net fee and commission income	–	–	0.0	6.5	0.2

Information regarding natural persons

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

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
in EUR million	**Mar 2017**	**Mar 2017**	Dec 2016	Dec 2016
Current account deposits	9	2	10	3
Savings deposits	1	3	0	3
Loans	0	3	1	3

14 | Segment reporting

This information is based on the Group structure as of 31 March 2017.

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

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

As of June 2016, certain changes in the business segment reporting have been made to be more transparent and better reflect the developments and our progress in the individual business segments going forward. The prior periods' figures have been adjusted accordingly. A summary of the major changes and rationale is provided below:

<table>
<tr><th>Old reporting</th><th>New reporting</th><th>Changes</th></tr>
<tr><td rowspan="2">Retail Banking and Small Business</td><td>BAWAG P.S.K. Retail</td><td rowspan="2">Segment split to clearly show
▸ the BAWAG P.S.K. origination capacities in retail and small business banking, adding own issues covered with retail assets and Wohnbaubank bonds from the Corporate Center to combine directly connected business activities in one business segment
▸ our direct bank activities of easybank with its leasing subsidiaries including international retail lending activities</td></tr>
<tr><td>easygroup</td></tr>
<tr><td rowspan="2">Corporate Lending and Investments</td><td>DACH Corporates & Public Sector</td><td rowspan="2">Segment split to clearly show
▸ direct customer business through the business solution partners in the DACH region, adding own issues covered with corporate or public assets as well as direct refinancings from the Corporate Center to combine directly connected business activities in one business segment
▸ international origination business from the London office predominantly in Western markets</td></tr>
<tr><td>International Business</td></tr>
<tr><td>Treasury Services and Markets</td><td>Treasury Services & Markets</td><td>▸ Adding the liquidity portfolio as well as funding activities (unsecured issues, repos and short-term liquidity actions) from the Corporate Center</td></tr>
<tr><td>Corporate Center</td><td>Corporate Center</td><td>▸ Splitting out assets/liabilities as described above to clearly focus on non business related positions in the Corporate Center</td></tr>
</table>

BAWAG P.S.K. is managed in accordance with the following six main business and reporting segments:

- **BAWAG P.S.K. Retail –** includes savings, payment, card and lending activities, investment and insurance services for our domestic private customers, small business lending and our social housing activities, building society savings and loans as well as real estate leasing.

- **easygroup –** includes our direct banking subsidiary *easybank* with a full online product offering, e.g. savings, payments, card and lending activities for private and small business customers, along with our auto and mobile leasing platforms as well as lending to our international retail clients.

- **DACH Corporates & Public Sector –** includes our corporate and public lending business and other fee-driven financial services for mainly Austrian customers; as we also support our clients in their cross-border activities, selective client relationships in neighboring countries are included in this segment as well.

- **International Business –** includes lending activities to international corporates as well as international real estate financing activities outside the DACH region originated by our London office.

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

- **Corporate Center –** includes unallocated items related to support functions for the entire Bank, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center.

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

The segments in detail:

Q1 2017 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	98.5	35.3	20.7	33.4	12.6	(3.7)	196.8
Net fee and commission income	37.7	2.7	10.0	0.0	0.0	(0.6)	49.8
Core revenues	**136.2**	**38.0**	**30.7**	**33.4**	**12.6**	**(4.3)**	**246.6**
Gains and losses on financial instruments	0.8	0.0	0.5	0.3	5.1	11.3	18.0
Other operating income and expenses	0.5	(0.1)	0.0	0.0	0.0	0.0	0.4
Operating income	**137.5**	**37.9**	**31.2**	**33.7**	**17.7**	**7.0**	**265.0**
Operating expenses	**(70.2)**	**(7.9)**	**(11.7)**	**(8.4)**	**(4.0)**	**(5.0)**	**(107.2)**
Regulatory charges	(13.4)	(1.2)	–	–	–	(10.6)	(25.2)
Total risk costs	(10.8)	2.0	1.7	(3.0)	(0.1)	(0.9)	(11.1)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	1.1	1.1
Profit before tax	**43.1**	**30.8**	**21.2**	**22.3**	**13.6**	**(8.4)**	**122.6**
Income taxes	–	–	–	–	–	(26.5)	(26.5)
Profit after tax	**43.1**	**30.8**	**21.2**	**22.3**	**13.6**	**(34.9)**	**96.1**
Non-controlling interests	–	–	–	–	–	0.0	0.0
Net profit	**43.1**	**30.8**	**21.2**	**22.3**	**13.6**	**(34.9)**	**96.1**
Business volumes							
Assets	11,634	4,284	7,891	5,327	8,405	3,001	40,542
Risk-weighted assets	4,609	2,354	2,790	4,112	2,024	1,236	17,125

Q1 2016 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	82.9	30.6	19.9	33.3	14.4	4.1	185.2
Net fee and commission income	35.6	2.1	9.8	0.0	0.0	3.4	50.9
Core revenues	**118.5**	**32.7**	**29.7**	**33.3**	**14.4**	**7.5**	**236.1**
Gains and losses on financial instruments	0.8	0.0	(0.5)	(0.9)	(0.8)	14.9	13.5
Other operating income and expenses	0.7	(0.2)	0.0	0.0	0.0	0.2	0.7
Operating income	**120.0**	**32.5**	**29.2**	**32.4**	**13.6**	**22.6**	**250.3**
Operating expenses	**(69.0)**	**(8.2)**	**(12.7)**	**(6.9)**	**(4.2)**	**(3.0)**	**(104.0)**
Regulatory charges	(4.1)	(0.8)	–	–	–	(11.5)	(16.4)
Total risk costs	(7.9)	(0.4)	(0.3)	0.0	0.0	0.0	(8.6)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	0.3	0.3
Profit before tax	**39.0**	**23.1**	**16.2**	**25.5**	**9.4**	**8.4**	**121.6**
Income taxes	–	–	–	–	–	60.8	60.8
Profit after tax	**39.0**	**23.1**	**16.2**	**25.5**	**9.4**	**69.2**	**182.4**
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
Net profit	**39.0**	**23.1**	**16.2**	**25.5**	**9.4**	**69.1**	**182.3**
Business volumes							
Assets	9,207	3,392	7,757	5,414	5,984	3,572	35,326
Risk-weighted assets	3,790	1,936	3,001	4,393	1,828	1,461	16,409

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

Other operating income and expenses and Operating expenses are reconciled with the consolidated profit or loss statement as follows:

in EUR million	**Q1 2017**	Q1 2016
Other operating income and expenses according to segment report	0.4	0.7
Regulatory charges	(24.7)	(16.0)
Other operating income and expenses according to consolidated profit or loss statement	**(24.3)**	**(15.3)**

in EUR million	**Q1 2017**	Q1 2016
Operating expenses according to segment report	(107.2)	(104.0)
Regulatory charges	(0.5)	(0.4)
Operating expenses according to consolidated profit or loss statement	**(107.7)**	**(104.4)**

15 | Capital management

Regulatory reporting is performed on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group as the EEA parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds of Promontoria Sacher Holding N.V. Group and BAWAG Holding Group applying transitional rules and its own funds requirement as per 31 March 2017 and 31 December 2016 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	Promontoria		BAWAG Holding	
in EUR million	**Mar 2017[3)]**	Dec 2016	**Mar 2017[3)]**	Dec 2016
Share capital and reserves (including funds for general banking risk)[1)]	3,123	3,121	3,160	3,158
Not yet distributed dividend for 2015[1)]	(25)	(25)	–	–
Deduction of intangible assets	(257)	(190)	(257)	(190)
Other comprehensive income	(40)	(30)	(40)	(30)
IRB risk provision shortfalls[2)]	(30)	(19)	(30)	(19)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(30)	(47)	(30)	(47)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(119)	(100)	(119)	(100)
Excess of deduction from AT1 items over AT1 capital	(68)	(133)	(68)	(133)
Common Equity Tier I	**2,554**	**2,577**	**2,616**	**2,639**
IRB risk provision shortfalls[2)]	(4)	(6)	(4)	(6)
Deduction of intangible assets	(64)	(127)	(64)	(127)
Excess of deduction from AT1 items over AT1 capital	68	133	68	133
Additional Tier I	**–**	**–**	**–**	**–**
Tier I	**2,554**	**2,577**	**2,616**	**2,639**
Supplementary and subordinated debt capital	481	484	481	484
Excess IRB risk provisions	7	24	7	24
Less significant investments, IRB risk provision shortfalls[2)]	(25)	(26)	(25)	(26)
Tier II	**463**	**482**	**463**	**482**
Own funds	**3,017**	**3,059**	**3,079**	**3,121**

1) Dividends for 2015: In the third quarter 2016, BAWAG Holding paid a dividend of EUR 309 million to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding GmbH. Promontoria Sacher Holding N.V. paid a dividend of EUR 265 million to its shareholders. Another EUR 25 million have not yet been paid but deducted from CET1 as a foreseeable dividend.
2) March 2017: According to CRR, LLPs as of 31 December 2016 including disposals until 31 March 2017.
3) Own funds as of 31 March 2017 differ from those as of 31 December 2016 inter alia because of different CRR transitional rules for 2017 and 2016 for the eligibility of capital and deductions from own funds.

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

	Promontoria		BAWAG Holding	
in EUR million	Mar 2017	Dec 2016	Mar 2017	Dec 2016
Credit risk	15,486	15,423	15,479	15,426
Market risk	40	59	40	59
Operational risk	1,580	1,633	1,580	1,633
Capital requirements (risk-weighted assets)	**17,106**	**17,115**	**17,099**	**17,118**

Supplemental information on a fully loaded basis (including interim profit)

	Promontoria		BAWAG Holding	
	Mar 2017	Dec 2016	Mar 2017	Dec 2016
Common Equity Tier I capital ratio based on total risk	15.3%	14.8%	15.7%	15.1%
Total capital ratio based on total risk	18.1%	17.6%	18.5%	18.0%

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	Mar 2017	Dec 2016	Mar 2017	Dec 2016
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	14.9%	n/a	15.3%	n/a
Total capital ratio based on total risk (excl. interim profit)	17.6%	n/a	18.0%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	15.4%	15.1%	15.9%	15.4%
Total capital ratio based on total risk (incl. interim profit)	18.2%	17.9%	18.7%	18.2%

16 | Fair value

The following table depicts a comparison of the carrying amounts and fair values for selected items on the statement of financial position:

in EUR million	Carrying amount Mar 2017	Fair value Mar 2017	Carrying amount Dec 2016	Fair value Dec 2016
Assets				
Cash reserves	760	760	1,020	1,020
Financial assets designated at fair value through profit or loss	193	193	202	202
Available-for-sale financial assets				
Recognized at fair value	3,024	3,024	3,129	3,129
Recognized at cost	80	n/a	80	n/a
Held-to-maturity investments	2,300	2,380	2,353	2,448
Financial assets held for trading	546	546	652	652
Loans and receivables	32,252	32,695	30,821	31,298
Hedging derivatives	583	583	677	677
Property, plant and equipment	51	n/a	53	n/a
Investment properties	3	5	3	5
Intangible non-current assets	365	n/a	360	n/a
Other assets	385	n/a	393	n/a
Total assets	**40,542**		**39,743**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	964	964	1,115	1,115
Financial liabilities held for trading	505	505	617	617
Financial liabilities at amortized cost	34,313	34,658	32,962	33,261
Financial liabilities associated with transferred assets	90	90	300	300
Valuation adjustment on interest rate risk hedged portfolios	175	175	223	223
Hedging derivatives	210	210	260	260
Provisions	397	n/a	404	n/a
Other obligations	660	n/a	726	n/a
Equity	3,227	n/a	3,134	n/a
Non-controlling interests	1	n/a	2	n/a
Total liabilities and equity	**40,542**		**39,743**	

The fair values of investment properties were determined by external property valuers having appropriate recognized professional qualifications and recent experience in the location and category of property being valued. The carrying amount of other assets and other obligations is a reasonable approximation of fair value. Therefore, information on the fair value of these items is not shown.

The available-for-sale financial assets include EUR 80 million in investments in private and public limited companies. The fair value of these financial instruments has not been disclosed because their fair value cannot be measured reliably. There is no active market for these financial instruments and future cash flows cannot be calculated reliably. BAWAG P.S.K. does not intend to sell or derecognize significant investments in equity held at the reporting date in the near future.

Securities recognized in the line items Held to maturity investments and Loans and receivables are measured at amortized cost. Therefore, their book value does not include unrealized gains in the amount of EUR 117 million.

Furthermore, own issues recognized in the line item Financial liabilities designated at amortized cost do not include unrealized losses in the amount of EUR 274 million.

Fair value hierarchy

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

- **Level 1:** The value of financial instruments is measured using a quoted price without adjustment. This includes government bonds, bonds with quoted prices and exchange-traded derivatives.
- **Level 2:** The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.
- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid structured securitization instruments whose value is determined by unobservable assumptions (the outcome of litigation, investor decisions, trigger events, etc.) as well as own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve.
- **Other:** This pertains to stakes in non-consolidated subsidiaries that are classified as available-for-sale.

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

Mar 2017 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	2	190	1	–	193
Available-for-sale financial assets	2,930	93	1	80	3,104
Financial assets held for trading	0	546	–	–	546
Hedging derivatives	–	583	–	–	583
Total fair value assets	**2,932**	**1,412**	**2**	**80**	**4,426**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	540	424	–	964
Financial liabilities held for trading	–	505	–	–	505
Valuation adjustment on interest rate risk hedged portfolios	–	175	–	–	175
Hedging derivatives	–	210	–	–	210
Total fair value liabilities	**–**	**1,430**	**424**	**–**	**1,854**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80-81 because their fair value cannot be measured reliably.

Dec 2016 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	2	199	1	–	202
Available-for-sale financial assets	2,949	179	1	80	3,209
Financial assets held for trading	–	652	–	–	652
Hedging derivatives	–	677	–	–	677
Total fair value assets	**2,951**	**1,707**	**2**	**80**	**4,740**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	638	477	–	1,115
Financial liabilities held for trading	–	617	–	–	617
Valuation adjustment on interest rate risk hedged portfolios	–	223	–	–	223
Hedging derivatives	–	260	–	–	260
Total fair value liabilities	**–**	**1,738**	**477**	**–**	**2,215**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80-81 because their fair value cannot be measured reliably.

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

Movements between Level 1 and Level 2

In the first quarter 2017, one available-for-sale security (2016: seven) was moved from Level 1 to Level 2 due to subsequent illiquid market prices. Five available-for-sale securities (2016: five) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 financial instruments measured at fair value

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

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2017	**1**	**1**	**477**
Valuation gains (losses) in profit or loss	–	–	–
for assets held at the end of the period	–	–	(4)
for assets no longer held at the end of the period	–	–	–
Valuation gains (losses) in other comprehensive income	–	–	–
for assets held at the end of the period	–	–	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	–	–
Redemptions	–	–	(49)
Sales	–	–	–
Foreign exchange differences	–	–	–
Transfers into or out of other levels	–	–	–
Closing balance as of 31.03.2017	**1**	**1**	**424**

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2016	**2**	**4**	**468**
Valuation gains (losses) in line item gains and losses on financial assets and liabilities in profit or loss			
for assets held at the end of the period	–	–	(12)
for assets no longer held at the end of the period	–	–	–
Valuation gains (losses) in other comprehensive income			
for assets held at the end of the period	–	–	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	1	–
Redemptions	(1)	(4)	(40)
Sales	–	–	–
Foreign exchange differences	–	–	–
Change in scope of consolidation	–	–	61
Transfers into or out of other levels	–	–	–
Closing balance as of 31.12.2016	**1**	**1**	**477**

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

In the first quarter 2017, the financial liabilities reported under Level 3 in 2016 decreased by a total of EUR 53 million, mainly due to redemptions.

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

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium is currently 100 basis points (31 December 2016: 100 basis points) for all maturities (mid).

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

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank; BAWAG P.S.K. had Level 3 financial assets recognized at their fair value in the amount of EUR 2 million as of 31 March 2017. If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 31 March 2017 would have increased by EUR 1.8 million (31 December 2016: EUR 2.0 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 31 March 2017 would have decreased by EUR 0.6 million (31 December 2016: minus EUR 0.6 million).

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG P.S.K. are responsible for the identification, quantification, limitation, monitoring and steering of all risks the Group is exposed to. At all organizational levels, Market and Risk functions are strictly separated.

The Managing Board defines the overall risk appetite and risk strategy on an annual basis. All risk management principles, the defined limits for all material risks and the established procedures for monitoring these risks are documented in risk manuals and guidelines. The Managing Board is continuously and proactively informed on the overall risk situation. The monthly risk reporting is based on clearly defined risk metrics and encompasses all Pillar I and Pillar II relevant topics as well as operational risk matters and additionally relevant specific risk topics. Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board.

Risk management policies are reviewed regularly to reflect changes in regulatory requirements, market conditions as well as products and services offered by the Group.

The following divisions oversee the implementation and execution of risk-related guidelines:

- Strategic Risk
- Credit Risk Management
- European Retail Risk Management
- Non-Financial Risk Management & Regulatory Compliance

The following risks including their respective sub-risks are considered as material for BAWAG P.S.K.:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Furthermore, a risk self-assessment (RSA), which is conducted on an annual basis, provides an overview of the Group's risk situation and the risk management of the individual risk types using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, their impact on the Group as well as their coverage through existing risk management procedures. The quantification of these risks is considered in the risk bearing capability.

The material risks of BAWAG P.S.K. are described on the following pages.

17 | Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing

The Group's economic risk-bearing capability, which compares the quantified risks with the risk coverage capacity, is evaluated on a monthly basis. The risk quantification is based on a confidence level of 99.9%, which represents the probability of potential losses not exceeding the quantified risks. Limits are determined for all defined limit categories and steering portfolios as part of the risk strategy. Compliance with the limits is monitored in accordance with the established monitoring processes on a monthly basis. If the predefined warning levels are reached or the limits are exceeded, escalation processes are initiated.

In connection with the evaluation of the risk-bearing capability, the individual and material risks are quantified, subsequently aggregated to the total risk and, in a further step, compared with the Group's risk coverage capacity. The following risk types are considered:

- Credit risk: The quantification of credit risk is based on the IRB approach for all portfolio segments. Additional capital surcharges are applied for concentration risk in connection with loans to major customers/to groups of affiliated customers, for the FX-induced credit risk as well as for the risk arising from credit lines not subject to capital requirements under legal regulations.

- Market risk: The Group has identified interest rate risk in the banking book and credit spread risk as the relevant market risks. Interest rate risk is measured using value-at-risk models, whereas a scenario-based approach is used for measuring credit spread risks. The interest rate risk in the banking book and the credit spread risk are aggregated taking conservative correlation assumptions into account.

- Liquidity risk: The structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of spreads in connection with a notional spread widening on the market. Dispositive liquidity risks as well as market liquidity risk are quantified in Strategic Risk and are controlled operationally in Asset-Liability Management.

- Operational risk: The operational risk is quantified using a value-at-risk model.

- Other risks: This risk category includes participation risk, macroeconomic risk, strategic risk, reputation risk, capital risk and compliance risk (including the risk from money laundering and terrorism financing). Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk based on expert assumptions. For all other mentioned risk types, the required economic capital is quantified using simplified valuation models.

The risk-bearing capacity is reported to the Managing Board via the Enterprise Risk Meeting (ERM) on a monthly basis.

The ICAAP stress test is fully integrated into the strategic risk management, capital management and planning processes of BAWAG P.S.K.

The link between the internal stress tests and capital management is formally defined within the internal risk and capital governance.

The capital ratios defined within the capital planning process and monitored by the Capital Management Meeting are used as a benchmark for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the internal stress tests, senior management reviews whether the stressed capital ratios remain above the recovery levels. A breach of the recovery levels needs to be soundly justified, or measures need to be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

Furthermore, results of the ICAAP stress test are reported directly to the ERM. The ERM is in charge of assessing the results of the exercise and defining any corrective action for the risk appetite or business strategy, where necessary.

18 | Credit risk

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

The operative credit risk division is specifically set up to ensure functional risk management expertise for commercial and institutional as well as retail and small business customers. The strategic risk division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In the retail and small business customer segment, the creditworthiness of private and small business customers is assessed via automated scorecards, which are also consistently applied in easygroup. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer's account usage. In addition, external data (e.g. credit bureau information) is also factored into the customer scoring. The individual customer credit ratings are updated monthly.

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

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

To manage overall concentration risk, exposure limits are defined, monitored and reported to the Managing Board and Supervisory Board on a regular basis.

Business segment development in the first quarter 2017

The Group's risk and business strategy are aligned to focus on maintaining a low-risk balance sheet, focusing on stable economies, maintaining strong capital and low levels of leverage and profitable/disciplined growth defined on a risk-adjusted return basis.

In the first quarter 2017, BAWAG P.S.K. Retail experienced further growth in consumer financing. Significant efforts were undertaken to further develop overall underwriting standards and processes through automated and continuously enhanced underwriting models.

The Group's new mortgage originations have an average LTV of 75% (2016: 76%) and an overall portfolio LTV of 65% (2016: 65%).

easygroup includes our direct banking subsidiary *easybank*, our auto and mobile leasing platforms as well as our residential mortgage portfolios in Western Europe. This portfolio consists of the UK portfolio (outstanding balance as of 31 March 2017: GBP 1.5 billion; as of 31 December 2016: GBP 1.5 billion) and the French portfolio (outstanding balance as of 31 March 2017: EUR 1.3 billion; as of 31 December 2016: EUR 1.4 billion).

The risk policy of easygroup is in accordance with BAWAG P.S.K.'s guidelines and is characterized by a conservative, low-risk appetite with an emphasis on risk-adjusted returns.

The leasing business focuses on leasing of motor vehicles and related business managed in the segment easygroup. The risk policy of the leasing companies is closely aligned to the guidelines of BAWAG P.S.K. The risk systems, which have been adapted to the special requirements of the leasing business, are part of the risk architecture of the Bank.

The segments DACH Corporates & Public Sector as well as International Business were characterized by proactive risk management, disciplined lending in developed markets and maintaining a disciplined approach on risk-adjusted pricing. Consequently, exposures with unfavorable risk profiles (i.e. "watch loans") are being actively managed and reduced within the Group's early warning process. This is especially true for the Bank's exposure to the oil business, which – in light of the decreasing commodity price – has been under scrutiny since 2015 and led to a majority of customers being put on the watch list since then. Despite the relatively low credit volume in amount of EUR 324 million (thereof EUR 173 million / 8 groups of customers) at year-end 2015, BAWAG P.S.K. further managed to decrease the portfolio to EUR 268 million (thereof EUR 140 million / 6 groups of customers) at end of the first quarter 2017, which currently represents 2.2% of the total corporate book.

The Treasury Services & Markets segment includes interest rate and currency risk positions as well as capital market activities and comprises the Group's portfolio of debt securities. The investment strategy continues to focus on investment grade securities predominantly representing unsecured and secured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures. In addition, the Bank also selectively invests in structured credits (CLOs) with high credit quality (AAA and AA), which show a high degree of diversification with respect to countries and industries.

The Corporate Center is comprised primarily of positive market values from derivatives and non-core participations.

Credit risk and bonds by business segment

Mar 2017 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	11,516	4,264	7,424	4,994	2,754	369	31,321
Bonds	3	0	444	329	5,651	17	6,444
Off-balance business	1,208	667	780	306	224	837	4,022
Total	**12,727**	**4,931**	**8,648**	**5,629**	**8,630**	**1,223**	**41,787**
thereof collateralized[1)]	6,041	3,750	2,345	2,124	192	0	14,452
thereof NPL (incl. LLP, gross view)	217	129	56	16	0	255	672

1) Regulatory eligible collateral comprises residential and commercial real estate, guarantees, life insurance, etc.

Dec 2016 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	11,558	4,436	7,344	5,242	1,326	368	30,274
Bonds	0	0	446	392	5,366	23	6,227
Off-balance business	1,108	498	1,123	303	314	714	4,060
Total	**12,666**	**4,934**	**8,913**	**5,937**	**7,006**	**1,105**	**40,561**
thereof collateralized[1)]	6,016	3,897	2,403	2,167	193	1	14,677
thereof NPL (incl. LLP, gross view)	214	92	50	0	0	255	611

1) Regulatory eligible collateral comprises residential and commercial real estate, guarantees, life insurance, etc.

The table below provides a reconciliation between book values of loans and receivables, the risk report and the segment report.

	Note 8		Risk view		Segment report
Mar 2017 in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)[1]	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,516	3	11,519	115	11,634
easygroup	4,264	0	4,264	19	4,284
DACH Corporates & Public Sector	7,660	208	7,868	23	7,891
International Business	5,106	217	5,323	4	5,327
Treasury Services & Markets	3,337	5,068	8,405	0	8,405
Corporate Center	369	17	386	2,615	3,001
Total	**32,252**	**5,513**	**37,765**	**2,777**	**40,542**

1) Shares and other variable-rate securities (Mar 2017: EUR 3.3 million, Dec 2016: EUR 4.0 million) are not included.

	Note 8		Risk view		Segment report
Dec 2016 in EUR million	Loans and receivables (L&R)	Loans and bonds (not part of L&R)[1]	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,558	0	11,558	101	11,659
easygroup	4,436	0	4,436	22	4,458
DACH Corporates & Public Sector	7,580	210	7,790	22	7,812
International Business	5,392	242	5,634	0	5,634
Treasury Services & Markets	1,496	5,195	6,691	0	6,691
Corporate Center	359	32	392	3,098	3,489
Total	**30,821**	**5,680**	**36,501**	**3,242**	**39,743**

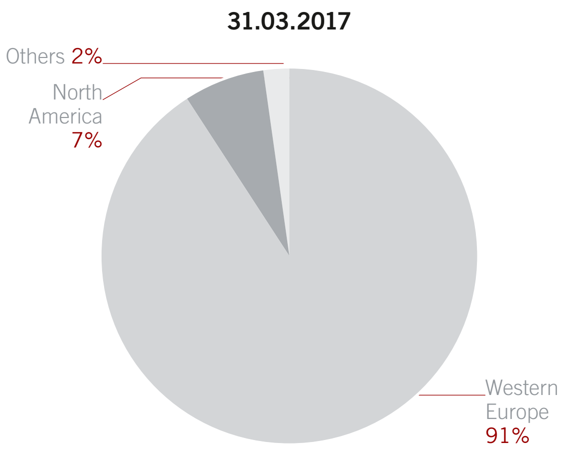
1) Shares and other variable-rate securities (Mar 2017: EUR 3.3 million, Dec 2016: EUR 4.0 million) are not included.

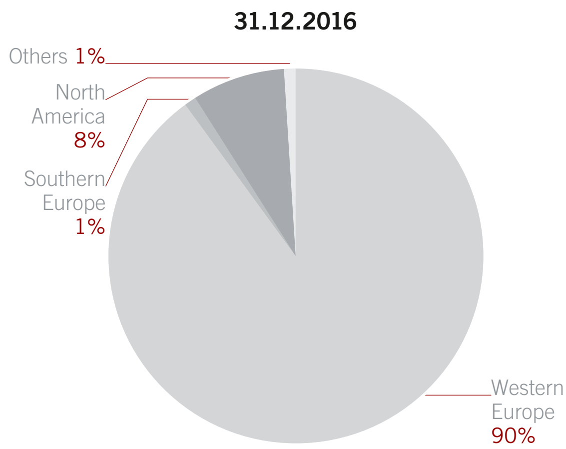
Geographical distribution of the loan and bond portfolio

The geographic distribution of the loan portfolio is in line with the Group's strategy to focus on stable geographies and currencies. A total of 98% (as of 31.12.2016: 98%) of the loan portfolio[1] and 85% (as of 31.12.2016: 84%) of the bond portfolio[2] is located in Western Europe and North America.

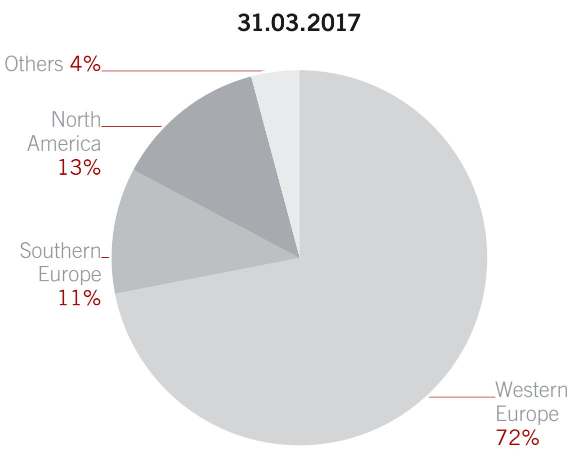
1) This includes Austria with 70% (Dec 2016: 67%), Great Britain with 10% (Dec 2016: 10%), the United States with 6% (Dec 2016: 8%), France with 5% (Dec 2016: 6%) and Germany with 3% (Dec 2016: 3%).
2) This includes Great Britain with 14% (Dec 2016: 14%), the United States with 13% (Dec 2016: 13%), Austria with 12% (Dec 2016: 11%), France with 9% (Dec 2016: 8%) and Germany with 2% (Dec 2016: 3%).

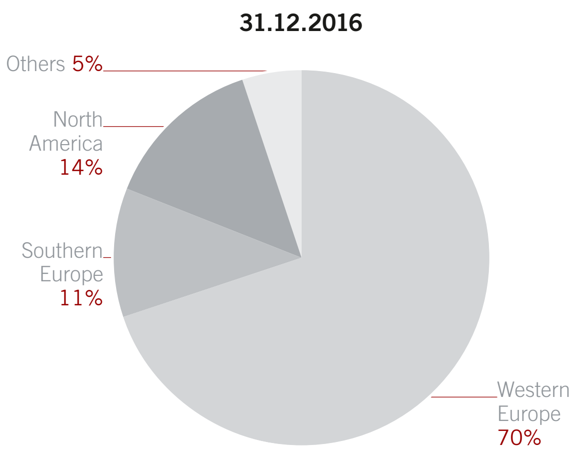
Geographical distribution of loans





Geographical distribution of bonds





Credit portfolio and bonds by currency

in EUR million	Book value Mar 2017	Book value Dec 2016	Relative value Mar 2017	Relative value Dec 2016
EUR	30,425	28,698	80.6%	78.6%
GBP	2,930	2,970	7.8%	8.1%
USD	2,381	2,705	6.3%	7.4%
CHF	1,806	1,863	4.8%	5.1%
Others	223	265	0.6%	0.7%
Total	**37,765**	**36,501**	**100.0%**	**100.0%**

Impaired loans

Provisions are booked on loans for which the probability of full recovery is not fulfilled. The main components of the provisioning framework are shown in the following paragraphs. The volume reported as NPLs includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed[1]. Loans are not included in NPLs if no economic loss is expected.

Manual impairment provision
In cases when exposures are restructured according to internal processes, which may include the extension of forbearance measures, an appropriate impairment test is performed. De-recognition is assessed after a detailed analysis on an individual basis and impairment provisions are formed manually.

Automatic impairment provision
Loan-loss provisions are booked automatically in the core banking system based on defined standards in the case of overdue balances. This occurs when limits are continuously exceeded on current accounts, installments are continuously not paid on loans and/or when legal action is initiated.

General impairment provisions
A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on- and off-balance-sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 31 March 2017, the IBNR portfolio provision amounted to EUR 54.3 million (incl. EUR 14.6 million of provision for redemption carrier loans), thereof off-balance items amounted to EUR 4.6 million (as of 31 December 2016: total IBNR provision was EUR 59.0 million, thereof off-balance items amounted to EUR 5.5 million).

Non-performing loans (NPLs)

Exposures relating to all customers in default risk class 8[2] are categorized as non-performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account. When a material exposure of a customer is greater than 90 days past due, a loan-loss provision is allocated or a customer-specific default criterion applies. The customer is considered to be in default across all exposure-related products and is assigned to risk class 8.

Forborne loans and forbearance measures

Measures of forbearance or refinancing are extended if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. The Group has sound and transparent processes in place to define the conditions under which concessions, in the form of modification of terms and conditions, or refinancing, may be granted. In this respect, strictly temporary measures – i.e. a reduction or postponement of as well as transfer to terms of interest only repayments – are in place. In exceptional cases, temporary or permanent reduction of interest rates may be granted. Depending on customer segments, a split of loan agreements or refinancing facilities may be accepted as viable measures.

Measures of forbearance or refinancing are instruments to ultimately reduce the existing risk with respect to debt claims. However, forbearance measures are by no means used to avoid or postpone the recognition of impairment or disguise the level of credit risk resulting from forborne assets.

By implementing forbearance measures, the Group supports clients in maintaining financial stability. One of the positive effects of forbearance is to assist clients on their way back to a sustainable financial situation. If the supporting measure is not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards. For clients or a group of clients where a loss was identified, a provision is booked following internal guidelines.

For reporting as well as internal risk management purposes, the Group implemented processes and methods according to regulatory standards[3] in order to identify exposures for which forbearance or refinancing measures have been extended.

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, the two further impairment provision types described in the Impaired loan section lead to the immediate default of the customer.
2) Risk class 8 contains all customers that are classified as in default according to the CRR definition.
3) EBA/ITS/2013/03/rev1 published on 24 July 2014.

Risk concentrations by industry segment (aggregates the Segments DACH Corporates & Public Sector and International Business)

	Book value		Relative value	
in EUR million	Mar 2017	Dec 2016	Mar 2017	Dec 2016
Government	2,763	2,839	20.9%	21.1%
Real Estate	2,480	1,969	18.8%	14.7%
Public Sector	1,842	1,876	14.0%	14.0%
Portfolio	1,337	1,443	10.1%	10.8%
Services	778	801	5.9%	6.0%
B-2-C Products	459	578	3.5%	4.3%
Pharmaceuticals & Health Care	378	486	2.9%	3.6%
Automotive	358	386	2.7%	2.9%
Retail – Food	343	362	2.6%	2.7%
Transport	272	303	2.1%	2.3%
Investment Funds	268	278	2.0%	2.1%
Commodity	266	210	2.0%	1.6%
Hotels	215	223	1.6%	1.7%
Wood & Paper	210	220	1.6%	1.6%
Gaming & Leisure	203	226	1.5%	1.7%
Engineering and B-2-B	196	268	1.5%	2.0%
Social Housing	134	146	1.0%	1.1%
Telecommunication	119	188	0.9%	1.4%
Construction & Building Materials	119	91	0.9%	0.7%
Chemicals	108	107	0.8%	0.8%
Banks	76	135	0.6%	1.0%
Beverages, Food & Tobacco	75	76	0.6%	0.6%
Media	58	57	0.4%	0.4%
NGO	47	49	0.4%	0.4%
Utilities	46	49	0.3%	0.4%
Leasing	39	58	0.3%	0.4%
Mining & Metals	1	1	0.0%	0.0%
Total	**13,191**	**13,424**	**100.0%**	**100.0%**

19 | Market risk

Market risk is defined as the risk of losses caused by open risk positions in the market and the adverse development of market risk factors (interest rates, foreign exchange rates, equity prices, volatilities, credit spreads). Market risk can arise in conjunction with trading and non-trading activities. The primary market risk components for BAWAG P.S.K. are interest rate and credit spread risk.

Both risk categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches. The financial treatment of the positions is considered in the risk reporting concepts.

In the trading book, only risk mitigating measures are performed if necessary. The monitoring within the framework of ICAAP is carried out using a parametric VaR model. In the first quarter of 2017, the average value-at-risk of the trading book was measured at minus EUR 0.69 million (Jan–Mar 2016 average: minus EUR 0.53 million) and the value-at-risk as of 31 March 2017 was measured at minus EUR 0.64 million (31 December 2016: minus EUR 0.74 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

20 | Liquidity risk

In addition to the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk), liquidity risk also relates to the risk of increased refinancing costs, which can influence the Group's earnings situation (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The risk measurement is performed by the market risk department, which is part of the Strategic Risk division.

Short-term operational liquidity management is performed by the Treasury Services & Markets division based on a 30-day rolling forecast that is updated daily, allowing for the close tracking and management of the short-term liquidity position. All measures are closely aligned with Controlling & Asset-Liability Management. Asset-Liability Management is responsible for planning and managing the mid- and long-term funding position. Any important decision on liquidity risk is made within the Strategic Asset Liability Committee, in which all Managing Board members are represented.

Asset-Liability Management also ensures that the Bank holds a sufficiently diversified portfolio of high-quality liquid assets and that the liquidity buffer, which is derived from stress test results, is adequate for the Bank's anticipated needs as well as meeting all regulatory requirements. The central management of the mid- to long-term liquidity risk is performed using a 15-month rolling liquidity forecast and the Free-Available-Cash-Equivalent (FACE) ratio, which considers the regulatory liquidity requirements and limits.

The first quarter 2017 was characterized by a very solid liquidity position by stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Additionally, the bank once again underpinned its capital markets strength by successfully placing an international EUR 500 million public sector covered bond, the first Austrian public sector covered bond since 2014. Furthermore, BAWAG P.S.K. participated in the final call of ECB's TLTRO activities to reduce the overall funding costs and interest expenses.

21 | Operational risk

The Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The OpRisk RWAs are assigned to the segments based on the revenues.

For the purpose of internal economic capital steering (ICAAP), a statistical model is used to calculate the value-at-risk based on operational risk losses.

The losses resulting from operational risk are collected in a centrally administrated web-based database within clearly defined regulations and processes.

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

In addition to recipient-oriented reporting, the risk organization applies a risk control self-assessment (RCSA) concept in managing operational risk. All business units assess their material operational risks and the effectiveness of their control measures on a yearly basis using this uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is required.

A clear organizational structure and authorization levels form the basis of OpRisk governance. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are in place to manage the Group's OpRisk.

DEFINITIONS

Common Equity Tier 1 capital (CET1)	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Common Equity Tier 1 ratio	Common Equity Tier 1 capital (CET1) / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
IFRS equity	Equity attributable to the owners of the parent; excluding minorities
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets
Leverage ratio	Common Equity Tier 1 capital (CET1) / total exposure (calculation according to CRR, based on BAWAG Holding Group); as of September 2016, the total exposure calculation was adapted from three-month averages to an end-of-period figure in line with changed regulatory requirements
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR, based on Promontoria Sacher Holding N.V. Group)
Net interest margin	Net interest income / average interest-bearing assets; as of year-end 2016, the ratio's denominator was changed from average total assets to average interest-bearing assets and applied retroactively
Net profit	Profit after tax attributable to owners of the parent
NPL ratio	Non-performing loans (NPLs) / loans and receivables (including provisions); loans are not included in NPLs if no economic loss is expected
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses
Operating profit	Operating income less operating expenses and regulatory charges
Return on equity	Net profit / average IFRS equity
Return on equity (@12% CET1)	Return on equity calculated at a fully loaded CET1 ratio of 12%
Return on tangible equity	Net profit / average IFRS tangible equity
Return on tangible equity (@12% CET1)	Return on tangible equity calculated at a fully loaded CET1 ratio of 12%
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Holding Group, fully loaded)
Risk costs / loans and receivables	Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (including provisions)
RWA density	Risk-weighted assets / total assets
Total capital	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Total capital ratio	Total capital / risk-weighted assets

OWNER AND PUBLISHER

BAWAG P.S.K.
Bank für Arbeit und Wirtschaft und
Österreichische Postsparkasse Aktiengesellschaft
Georg-Coch-Platz 2, A-1018 Vienna, Austria
Companies Registry number: 205340x
Data Protection Authority number: 1075217
EU VAT number: ATU51286308
Telephone: +43 (0)5 99 05-0
Internet: www.bawagpsk.com

Investor Relations:
investor.relations@bawagpsk.com

Media:
communications@bawagpsk.com

Typesetting:
In-house using firesys

www.bawaggroup.com