CONSOLIDATED INTERIM REPORT

Q1 2014

KEY FIGURES

Statement of Financial Position (in EUR million)	**Mar 2014**	Dec 2013	Change %	Mar 2013	Change %
Total assets	34,431	36,402	(5.4%)	39,390	(12.6%)
Financial assets	7,890	7,733	2.0%	9,090	(13.2%)
Customer loans and receivables	20,948	20,980	(0.2%)	21,782	(3.8%)
Customer deposits	21,212	22,013	(3.6%)	22,144	(4.2%)
Own issues	6,569	7,531	(12.8%)	8,820	(25.5%)
IFRS equity [1)]	2,209	2,053	7.6%	1,870	18.1%
IFRS tangible equity [2)]	2,061	1,911	7.9%	1,702	21.7%
Risk-weighted assets	16,998	16,001	6.2%	20,097	(15.4%)
Profit or Loss Statement (in EUR million)	**Q1 2014**	Q4 2013	Change %	Q1 2013	Change %
Net interest income	153.0	161.1	(5.0%)	122.7	24.7%
Net fee and commission income	55.1	47.3	16.5%	51.9	6.2%
Core revenues	208.1	208.4	(0.1%)	174.6	19.2%
Gains and losses on financial instruments incl. other operating income	27.5	109.4	(74.9%)	66.3	(58.5%)
Operating income	235.6	317.8	(25.9%)	240.9	(2.2%)
Core operating expenses	(127.0)	(138.2)	(8.1%)	(144.4)	(12.0%)
Restructuring expenses and other one-off items	0.0	(76.9)	(100%)	(7.3)	(100%)
Total operating expenses	(127.0)	(215.1)	(41.0%)	(151.7)	(16.3%)
Bank levy	(6.1)	(6.3)	(3.2%)	(6.3)	(3.2%)
Total risk costs	(19.6)	(27.8)	(29.6%)	(30.1)	(34.9%)
Profit before tax	82.3	69.6	18.3%	52.4	57.1%
Net profit [3)]	80.0	73.3	9.2%	45.1	77.4%
Key ratios (in %)	**Mar 2014**	Dec 2013	Change %	Mar 2013	Change %
Common Equity Tier I capital ratio (Basel 3) [4)]	10.6%	9.4%	1.2pts	n/a	–
Total capital ratio (Basel 3) [5)]	14.7%	13.2%	1.5pts	n/a	–
Leverage ratio [6)]	5.2%	n/a	–	n/a	–
NPL ratio [7)]	3.7%	3.4%	0.3pts	5.0%	(1.3pts)
Liquidity coverage ratio [8)]	112.9%	n/a	–	n/a	–
Note: figures annualized	**Q1 2014**	Q4 2013	Change %	Q1 2013	Change %
Return on equity [9)]	15.02%	14.18%	0.84pts	9.58%	5.44pts
Return on tangible equity [10)]	16.11%	14.94%	1.17pts	10.54%	5.57pts
Return on risk-weighted assets [11)]	1.94%	1.76%	0.18pts	0.89%	1.05pts
Return on total assets [12)]	0.90%	0.80%	0.10pts	0.45%	0.45pts
Net interest margin [13)]	1.73%	1.77%	(0.04pts)	1.22%	0.51pts
Business net interest margin [14)]	2.23%	2.06%	0.17pts	1.90%	0.33pts
Cost-income ratio [15)]	53.9%	67.7%	(13.8pts)	63.0%	(9.1pts)
Risk costs / loans and receivables [16)]	0.30%	0.41%	(0.11pts)	0.41%	(0.11pts)
Ratings (Moody's) [17)]	**Mar 2014**	Dec 2013	Change %	Mar 2013	Change %
Long-term senior unsecured debt	Baa2	Baa2	–	Baa2	–
Short-term liabilities	P2	P2	–	P2	–
Outlook	stable	stable	–	stable	–
Financial strength (BFSR)	D/ba2	D/ba2	–	D/ba2	–

1) IFRS equity: equity attributable to the owners of the parent; excl. participation capital
2) IFRS equity excl. intangible assets
3) Profit after tax attributable to owners of the parent
4) IFRS CET I is based on pro-forma IFRS regulatory figures incl. Q1 2014 profit, excluding any transitional capital (fully loaded)
5) Total capital is based on pro-forma IFRS regulatory figures incl. Q1 2014 profit, excluding any transitional capital (fully loaded)
6) Leverage ratio = IFRS CET I / total assets
7) NPL ratio = non-performing loans / loans and receivables (incl. provisions)
8) Liquidity coverage ratio is based on preliminary results from the monitoring phase
9) Return on equity = net profit / average IFRS equity
10) Return on tangible equity = net profit / average IFRS tangible equity
11) Return on risk-weighted assets = net profit / average risk-weighted assets
12) Return on total assets = net profit / average total assets
13) Net interest margin = net interest income / average total assets
14) Business net interest margin = net interest income (excl. Corporate Center) / average total assets (excl. Corporate Center); for Q4 2013 the annual figure for 2013 is shown
15) Cost-income ratio = total operating expenses / operating income
16) Provisions for risk costs and impairment losses (total risk costs) / average loans and receivables (incl. provisions)
17) On 16 April 2014, Moody's raised BAWAG P.S.K.'s Bank Financial Strength Rating by one notch to D+/ba1 with stable outlook. For further details please refer to the chapter "Events after the Reporting Date."

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LETTER FROM THE CHIEF EXECUTIVE OFFICER

Following on BAWAG P.S.K.'s successful repositioning in 2013, the Bank continued to execute on its strategic initiatives during the first quarter of 2014. I am pleased to provide an overview of BAWAG P.S.K's first quarter 2014 financial results as we commence quarterly reporting for the Bank, thereby pursuing our goal of increased transparency.

The financial and operating results for the first quarter of 2014 were strong based on most key metrics:

- Net profit of EUR 80.0 million, resulting in an annualized 15% return on equity for the quarter.
- Core revenues of EUR 208.1 million, up 19% from the first quarter of 2013.
- Core operating expenses of EUR 127.0 million, which is a material decrease of 12% from the first quarter of 2013 and puts the Bank fully in line to achieve its goal of < EUR 500 million for the full year.
- Risk costs down to 30 basis points as a percentage of loans and receivables reflecting our conservative risk profile. Continued low NPL ratio of 3.7%.
- Retail consumer lending market share increased 50 basis points to 8.5% in a flat market, demonstrating the Bank's success in providing our customers with transparent, easy to understand lending products to complement our strong savings products. Customer deposits remain stable.
- A fully loaded Basel 3 CET I capital ratio of 10.6% (pro-forma IFRS incl. Q1 2014 profit) at 31 March 2014, resulting from strong earnings, our continued disciplined RWA allocation and the capital injection of EUR 125 million by our shareholders during the quarter. We are already above our minimum fully loaded Basel 3 CET I target of 10% by year-end of 2014.
- We fully redeemed the remaining EUR 350 million of participation capital held by the Republic of Austria on 14 March 2014. We are grateful for the support of the Republic of Austria and the taxpayers and are pleased to have provided the full repayment of the EUR 550 million of participation capital over the past twelve months and a solid return on the investment through the payment of EUR 234 million of dividends during the holding of the participation capital.

In my 2013 year-end letter, I highlighted the four cornerstones of the Bank's strategy that we believed would position BAWAG P.S.K. to be the leading Austrian-focused retail and corporate bank and drive sustainable long-term profitability:

1) Investing in our core retail franchise as well as our sustainable corporate lending and investment operations.
2) Repositioning the balance sheet to focus on our customers in core markets while exiting non-core assets, products, and certain geographic locations.
3) Improving our cost base by simplifying our business model and accelerating the bank-wide efficiency and productivity program.
4) Significantly strengthening our capital base and maintaining strong liquidity to address the changing regulatory environment while at the same time providing us with sufficient capacity for further investment in our core businesses.

I believe the results of the first quarter, both financially and operationally, demonstrate the early success of our execution of these strategic cornerstones, and that we are well positioned to address the continued headwinds we face from existing competitors, new market entrants, increased regulatory requirements and a continued low interest rate environment for the foreseeable future.

In addition to highlighting our first quarter 2014 results and previous progress in positioning BAWAG P.S.K. as the most efficient bank in the Austrian market, I want to emphasize our ongoing focus on improving execution for our customers and driving operational excellence across all areas of the Bank. Our past achievements may increase the probability of a successful outlook, but future results are only driven by continued discipline across all areas of the Bank.

Let me highlight our objectives, targets and approach in delivering both our near- and long-term objectives:

- **Objective: We will further develop our product and service range for our retail and corporate customers across physical and digital channels**

We constantly focus on the delivery of products and services which are valuable for our retail and corporate clients, easy to understand and transparent. We believe that reducing complexity and creating standardization are key objectives, as our products are delivered over an increasing number of channels and carry increased regulatory requirements. While we believe our "box" family of retail products holds firmly to this brand promise in our retail franchise, we will continue to refine these offerings based on our customer feedback and the developing opportunities through each of our channels.

We will invest materially in our digital channels as customers increase requirements for more flexible use of both branches and online/mobile applications. This investment is not only in new technology such as mobile applications, but also in maintaining near perfect operational stability in every digital channel we make available to our customers, with a goal of 24/7 access. We embrace the evolution of customer patterns in physical and digital banking relationships with our flexible branch operations in partnership with the Austrian Post, the online and mobile digital offerings of BAWAG P.S.K. and our leading direct bank, easybank. Our strategic operating plans combine the goal of maintaining excellence every single day with our customers, as well as anticipating our product and technology investments over a multi-year period in order to develop and maintain a lead within our core market of Austria.

In our corporate lending area, we continue to maintain focus and investment on sustainable lending and payment relationships where our competitive advantages reside. We value our long-term payments relationships with the Republic of Austria and many key public sector and corporate relationships and will maintain or increase our services and capabilities for these customers.

- **Objective: We will continue to invest in businesses that meet the Bank's overall profitability targets (target 2014: return on equity >10%)**

A core part of our overall repositioning was developing and maintaining a strict discipline on asset, product and business profitability thresholds. This resulted in a deleveraging and de-risking of assets and products that did not meet minimum risk-adjusted profitability hurdles, or where we did not see a long-term competitive advantage due to industry headwinds. This discipline remains within our organization and we constantly measure ourselves across our various business lines to ensure we deliver on bank-wide profitability targets. Key in our analyses are measurements of the risk-adjusted profitability, performance of asset classes over the credit cycle and resulting differences in overall profitability margins. This determines incremental investment, product changes and further strategic decisions to ensure we are fully addressing the requirements and opportunities of our customers in a competitive and evolving risk and regulatory landscape.

In order for us to meet our > 10% return on equity target in 2014 and longer-term earnings growth potential, we measure each of our business segments' ability to exceed our bank-wide equity return targets. We assume increased regulatory requirements and costs for the banking industry, which create a natural headwind overall. Further, we plan our return thresholds based on a persistent low interest rate environment and believe that a normalization of rates and a steeper yield curve would only provide additional opportunities for bank-wide returns, but are far from certain over the next three to five years. Our overall target is delivering increased returns over time that consistently exceed our cost of capital.

- **Objective: We will continue to increase our operational efficiency bank-wide (target 2014: core operating expenses < EUR 500 million)**

We believe increasing bank-wide operating efficiency is at the core of developing and maintaining a leading position in banking both in Austria and across the broader European banking industry over the coming years. This is not a one-time process but is embedded in our culture through personal accountability of Managing Board members and Division Heads to manage cost in each of their respective areas. The actions necessary for a significant cost reduction were completed in 2013 so that we could demonstrate the effectiveness of the restructuring program and be able to deliver tangible financial results as early as the first quarter of 2014. We are confident to reach our target annual operating expense goal of under EUR 500 million in 2014 from EUR 605 million in 2012, as our first quarter results support.

However, we must continue with the discipline and creativity to increase our operating efficiency during 2014 and beyond. We are already working on additional process optimization initiatives across various products and channels that will create material efficiency gains as well as enhance operational excellence and the overall customer experience. Our strategy of simplifying our product offerings and creating greater standardization not only appeals to our customers but also is a catalyst behind driving positive operating performance. Furthermore, by maintaining a stable core technology backbone that can leverage enhanced data capabilities and operating partnerships, we feel we are well positioned to streamline more of our processes and confidently track efficiency gains.

Our primary focus is on absolute cost targets rather than cost-to-income ratios, as we believe that our ability to drive cost discipline on an absolute net basis throughout the Bank differentiates us from our competitors.

- **Objective: We will retain a prudent and stable risk profile in order to maintain stable earnings through economic cycles (target 2014: risk costs / loans and receivables < 30 basis points)**

We know that it is not possible to predict with strong confidence the timing or behavior around adverse credit environments or circumstances which can develop based on a myriad of micro or macro factors. For this reason, in addition to regulatory required stress tests, our risk management function constantly runs stress tests across different asset classes, under a variety of scenarios ranging from mild to very severe. Our capital targets, enhanced liquidity and diversification are driven by these analyses in addition to our views of our competitive position. Core to our strategy is focusing primarily on Austria and on selected areas in Western Europe, which we believe offer strong risk-adjusted returns for our Bank even though not necessarily the highest overall lending margins. We have substantially exited areas that we feel could not provide our Bank with a sustainable risk-adjusted return over cycles, such as Central and Eastern European (CEE) countries that can provide higher revenue margins but we believe demonstrate higher risk. While we manage our portfolio on an aggregate basis due to various returns available in different markets and asset classes, this risk cost target provides a quantitative measurement in addition to all of the other processes which drive diversification and relative conservatism. Of course, our ability to manage the Bank on this more conservative risk framework naturally results in lower gross and net margins. This result integrates with the absolute requirements of maintaining and increasing cost efficiency in each of our business areas in order to provide adequate returns on equity over an economic cycle.

- **Objective: We will maintain a strong capital, funding and liquidity position, which remains at the very core of our entire business strategy (target 2014: fully loaded Basel 3 CET I capital ratio > 10%)**

I believe we have demonstrated the highest importance of achieving and maintaining strong capital and liquidity for the Bank as we move forward in executing our strategic plans. We have recognized the importance of maintaining a capital structure focused on "non-transitional capital components" and measuring our capital ratios on a "fully loaded" Basel 3 basis. We took strong actions to both reposition the Bank and increase our capital base to be in full compliance with the expectations of both our regulators and the market. As a result, through all of our actions and earnings growth, we are pleased to report that our 10.6% fully loaded Basel 3 CET I capital ratio (pro-forma IFRS incl. Q1 2014 profit) at the end of the first quarter exceeds our minimum 10% target we set out for year-end 2014 based on pro-forma calculations according to IFRS regulatory capital standards. However, we do not project operating the Bank along that minimum target, but plan for maintaining some buffer in any normal environment. As a result, we will continue to maintain the same discipline on our allocation of risk-weighted assets across the Bank as we have over the past two years, and will benefit from sustainable long-term organic earnings generation that allows for the highest quality accretion of capital.

We view our liquidity position as a continued source of strength for the Bank. Despite the overall balance sheet deleveraging over the past two years, we consciously have maintained a stable retail deposit base and focused on selectively reducing our wholesale funding. Our liquidity and funding metrics reflect an excess cash position for the Bank above all regulatory liquidity requirements.

We target a loan-to-deposit ratio of < 105%, which reflects the strategic nature of our retail deposits and the wide wholesale funding opportunities available to us. Additionally, we have commenced communicating our liquidity coverage ratio at the end of the first quarter and see this as a strong measure of the Bank's overall liquidity position.

While I probably took more space than normal in this first quarterly letter to discuss in more detail our strategy going forward and how we measure progress and success, I thought it was important to set the framework as we move the Bank forward in Austria in a developing banking environment. Importantly, I hope this letter conveys our ongoing sense of urgency and lack of complacency in order to have the highest probability to provide superior performance in the long term for our customers and our stakeholders.

We have a strong customer franchise and history as a bank in Austria and we fully intend to leverage our capabilities and rich legacy. However, we are cognizant that the banking industry will continue to evolve and customer preferences and needs will continue to shift across competing channels while the traditional banking model is under pressure from new market entrants with new technology offerings. Our ability to compete effectively and profitably over the long term is grounded in our strategy to focus on products that our customers value from BAWAG P.S.K. and to deliver them expertly, clearly and even more efficiently. The measurement criteria for this operating strategy will evolve due to factors both within and outside of our control, so we will remain vigilant and flexible to address these opportunities and challenges.

I want to thank again all of our customers and employees for their support of BAWAG P.S.K. as we have addressed the challenges over the past year in order to be positioned to take advantage of the market over the coming months and years. We continue to aim to be the most efficient bank in Austria that is favored by our existing and new customers and will work hard every day to achieve that status.

Byron Haynes m.p.
CEO and Chairman of the Managing Board
Vienna, May 2014

Interim Group Management Report

ECONOMIC AND REGULATORY DEVELOPMENTS

MODEST ECONOMIC RECOVERY IN THE EUROPEAN UNION

Following the slow GDP growth of 0.4% in 2013, the Austrian economy continued to expand at a moderate pace in Q1 2014: both the manufacturing purchasing managers index and the European Commission's economic sentiment indicator – two informative early economic indicators – remained slightly above the expansion threshold. Employment growth was robust in Q1 2014, helping unemployment to stabilize below 5.0% (4.9% as of March), the lowest reading among EU countries.

Rating agencies took account of Austria's modest economic recovery by confirming the rating (Moody's: Aaa; S&P: AA+; Fitch: AAA) and by upgrading the outlook (Moody's from negative to stable).

In Europe, the economies of previously struggling Southern European peripheral countries improved. Unemployment is declining in Spain, Portugal and Greece. The crisis in Ukraine stemming from Russia's annexation of Crimea has led to increased political tensions between Western countries and Russia during the quarter and is continuing. The fear of an extended crisis and possible international sanctions has resulted in stressed economic conditions in Ukraine, Russia and certain other Central and Eastern European countries in the region that would be impacted by a prolonged crisis.

In Q1 2014, verbal statements highlighted a diverse stance on monetary policy on the part of the United States Federal Reserve and the ECB. While the ECB still discussed measures of expansive monetary policy and started involving the EUR/USD exchange rate prominently in its rationale, the U.S. Federal Reserve continued its tapering of quantitative easing and started addressing a future tightening of monetary policy.

TIGHT REGULATORY FRAMEWORK

As of 1 January 2014 the Capital Requirements Regulation (CRR) and the transformation of the Capital Requirements Directive (CRD IV) into the Austrian Banking Act came into force. These regulatory frameworks will be further defined by a large number of technical standards that will be published by the European Supervisory Authorities (ESA) and will be finalized during the balance of the year. Another area affected by regulatory changes is the derivative markets. A new regulation that has been in effect since 12 February 2014 requires derivative transactions to be reported to trade repositories according to the European Market Infrastructure Regulation (EMIR).

Furthermore, the regulatory convergence to a Single European Market is under way. The framework for single market regulation by the ECB will be published in May 2014. Moreover, a European Deposit Insurance Scheme as well as a Single Resolution Mechanism will be introduced. This is accompanied by the Bank Recovery and Resolution Directive (BRRD), which came into force in March 2014.

ASSET QUALITY REVIEW

In December 2013, the process for a comprehensive assessment of the European banking system was launched. The aim of the assessment is to provide greater transparency and confidence around the health of European banks' balance sheets applying a consistent and standard review process. The assessment is an essential element of the preparation for the supervision of banks that will be transitioned to the ECB.

The entire process comprises a supervisory risk assessment, an asset quality review and a stress test. Within the supervisory risk assessment, the key risks in the banks' balance sheets, including liquidity, leverage and funding, were addressed. Moreover, the Asset Quality Review (AQR) that started in February will include the analysis of various portfolios of the Bank in several steps.

The specific objectives of the AQR are the assessment of adequate provisioning and the determination of the appropriate valuation of collateral for credit exposures as well as the assessment of the valuation of complex instruments and high-risk assets of the balance sheet.

In order to address all requirements related to different stages of the review, the Bank dedicated appropriate in-house resources. A comprehensive data set has been transmitted; approximately 50% of the Bank's assets are currently being reviewed in detail.

FINANCIAL REVIEW

In the Interim Group Management Report, the financial results for the period from January to March 2014 are compared to those from the period from January to March 2013 and the balance sheet positions as of 31 March 2014 with those as of 31 December 2013.

OPERATING PERFORMANCE – HIGHLIGHTS Q1 2014

- Net profit of EUR 80.0 million, up 77.4%
- Return on equity of 15.0%, up from 9.6%
- Core revenues of EUR 208.1 million, up 19.2%
- Core operating expenses of EUR 127.0 million, down 12.0%
- Cost-income ratio of 53.9%, down from 63.0%
- Net interest margin of 1.73%, up 51 basis points
- Risk costs as a percentage of loans and receivables of 0.30%, down 11 basis points
- NPL ratio of 3.7%, down 130 basis points
- Fully loaded Basel 3 CET I capital ratio of 10.6% (pro-forma IFRS incl. Q1 2014 profit)
- Fully loaded Basel 3 total capital ratio of 14.7% (pro-forma IFRS incl. Q1 2014 profit)
- Liquidity coverage ratio of 112.9%

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or Loss Statement

in EUR million	Q1 2014	Q1 2013	Change %	Q4 2013	Change %
Interest income	267.1	263.5	1.4%	282.9	(5.6%)
Interest expense	(114.1)	(143.5)	(20.5%)	(124.1)	(8.1%)
Dividend income	0.0	2.7	(100%)	2.3	(100%)
Net interest income	**153.0**	**122.7**	**24.7%**	**161.1**	**(5.0%)**
Fee and commission income	82.1	75.3	9.0%	71.8	14.3%
Fee and commission expenses	(27.0)	(23.4)	15.4%	(24.5)	10.2%
Net fee and commission income	**55.1**	**51.9**	**6.2%**	**47.3**	**16.5%**
Core revenues	**208.1**	**174.6**	**19.2%**	**208.4**	**(0.1%)**
Gains and losses on financial instruments and other operating income and expenses [1)]	27.5	66.3	(58.5%)	109.4	(74.9%)
Operating income	235.6	240.9	(2.2%)	317.8	(25.9%)
Personnel expenses	(73.6)	(84.9)	(13.3%)	(68.3)	(7.8%)
Other expenses	(53.4)	(59.5)	(10.3%)	(69.9)	(23.6%)
Core operating expenses	**(127.0)**	**(144.4)**	**(12.0%)**	**(138.2)**	**(8.1%)**
Restructuring expenses and other one-off items	0.0	(7.3)	(100%)	(76.9)	(100%)
Total operating expenses	**(127.0)**	**(151.7)**	**(16.3%)**	**(215.1)**	**(41.0%)**
Bank levy	(6.1)	(6.3)	(3.2%)	(6.3)	(3.2%)
Operating profit	**102.5**	**82.9**	**23.6%**	**96.3**	**6.4%**
Provisions for risk costs	(19.6)	(27.4)	(28.5%)	(16.1)	21.8%
Impairment losses	0.0	(2.7)	100%	(11.7)	100%
Share of the profit or loss of associates accounted for using the equity method	(0.6)	(0.4)	50.0%	1.0	–
Profit before tax	**82.3**	**52.4**	**57.1%**	**69.6**	**18.3%**
Income taxes	(2.0)	(7.1)	(71.8%)	4.2	–
Profit after tax	**80.3**	**45.3**	**77.3%**	**73.8**	**8.9%**
Thereof attributable to non-controlling interests	0.3	0.2	50.0%	0.4	(25.0%)
Thereof attributable to owners of the parent (net profit)	**80.0**	**45.1**	**77.4%**	**73.3**	**9.2%**

1) In accordance with IFRS, the item other operating income and expenses also includes the bank levy in the amount of EUR 6.1 million. However, the Bank's management considers the bank levy as a separate expense. Accordingly, it is shown in the expense line in the Interim Group Management Report.

Net profit increased by EUR 34.9 million to EUR 80.0 million, or 77.4%. The increased net profit was a result of lower interest expenses, stable gross interest income and materially lower total operating expenses and risk costs.

Net interest income increased by EUR 30.3 million to EUR 153.0 million, or 24.7%. The main drivers related to liability optimization measures, which reduced interest expenses significantly against a backdrop of stabilized core customer loan development. The Bank's total net interest margin improved 51 basis points from 1.22% to 1.73%. The business net interest margin increased 33 basis points from 1.90% to 2.23%. Net interest income accounted for 64.9% of total operating income during the first quarter of 2014.

Net fee and commission income increased by EUR 3.2 million to EUR 55.1 million, or 6.2%. This reflects continued fee income growth across our retail franchise and a more stable corporate lending and investments fee income profile. Net fee and commission income represents 23.4% of total operating income during the first quarter of 2014.

Gains and losses on financial instruments and other operating income and expenses decreased by EUR 38.8 million to EUR 27.5 million, or 58.5%. This was primarily driven by significantly reduced impacts of one-off gains during the first quarter of 2013 resulting from the sale of securities and non-core subsidiaries.

Total operating expenses decreased by EUR 24.7 million to EUR 127.0 million, or 16.3%. The main drivers were a reduction of personnel expenses of EUR 11.3 million (13.3%) due to headcount reduction, reduction of other expenses of EUR 6.1 million (10.3%) and reduced net impact of one-off items. The cost-income ratio improved from 63.0% to 53.9%.

Provisions for risk costs and impairment losses (total risk costs) decreased by EUR 10.5 million to EUR 19.6 million, or 34.9%. This was mainly due to decreased individual loan loss provisions and reduced impairment costs resulting from improved overall credit quality of the core businesses, and the positive effects from de-risking activities in 2013.

Total assets

in EUR million	Mar 2014	Dec 2013	Change %	Mar 2013	Change %
Cash reserves	474	481	(1.5%)	250	89.6%
Financial assets	**7,890**	**7,733**	**2.0%**	**9,090**	**(13.2%)**
Available for sale	4,424	5,126	(13.7%)	5,978	(26.0%)
Held to maturity	1,711	773	>100%	141	>100%
Held for trading	1,143	1,081	5.7%	1,787	(36.0%)
Fair value through profit or loss	612	753	(18.7%)	1,184	(48.3%)
Loans and receivables	**25,245**	**27,256**	**(7.4%)**	**29,175**	**(13.5%)**
Customers	20,948	20,980	(0.2%)	21,782	(3.8%)
Debt instruments	2,502	2,485	0.7%	2,249	11.2%
Credit institutions	1,795	3,791	(52.7%)	5,144	(65.1%)
Hedging derivatives	202	164	23.2%	168	20.2%
Tangible non-current assets	84	85	(1.2%)	178	(52.8%)
Intangible non-current assets	148	142	4.2%	168	(11.9%)
Tax assets for current taxes	6	5	20.0%	6	–
Tax assets for deferred taxes	243	245	(0.8%)	217	12.0%
Other assets	139	291	(52.2%)	138	0.7%
Total assets	**34,431**	**36,402**	**(5.4%)**	**39,390**	**(12.6%)**

Financial assets increased by EUR 157 million to EUR 7,890 million as of 31 March 2014. Available-for-sale bonds were sold and offset by reinvestments in held-to-maturity bonds. The increase of held-to-maturity bonds also includes the reclassification of available-for-sale bonds with a book value of EUR 323 million.

Loans and receivables with customers amounted to EUR 20,948 million as of 31 March 2014 and remained stable. Due to overall balance sheet deleveraging actions that continued in the first quarter of 2014, there was a significant decrease in **loans and receivables with credit institutions** by EUR 1,996 EUR (52.7%) to EUR 1,795 million, which primarily represented excess liquidity invested in money markets.

Total liabilities and equity

in EUR million	Mar 2014	Dec 2013	Change %	Mar 2013	Change %
Financial liabilities	**30,702**	**32,488**	**(5.5%)**	**35,449**	**(13.4%)**
Fair value through profit or loss	1,992	2,968	(32.9%)	4,038	(50.7%)
Customers	–	–	–	43	(100%)
Issued securities	1,992	2,968	(32.9%)	3,995	(50.1%)
Held for trading	1,057	1,298	(18.6%)	2,179	(51.5%)
At amortized cost	27,653	28,222	(2.0%)	29,232	(5.4%)
Customers	21,212	22,013	(3.6%)	22,144	(4.2%)
Issued securities	4,577	4,563	0.3%	4,825	(5.1%)
Credit institutions	1,864	1,646	13.2%	2,174	(14.3%)
Financial liabilities associated with transferred assets	0	0	–	89	(100%)
Valuation adjustment on interest rate risk hedged portfolios	51	(2)	>100%	–	100%
Hedging derivatives	94	126	(25.4%)	126	(25.4%)
Provisions	474	504	(6.0%)	495	(4.2%)
Tax liabilities for current taxes	1	1	–	2	(50.0%)
Tax liabilities for deferred taxes	10	10	–	16	(37.5%)
Other obligations	595	477	24.7%	488	21.9%
Total equity	**2,504**	**2,798**	**(10.5%)**	**2,814**	**(11.0%)**
Participation capital	**–**	**350**	**(100%)**	**550**	**(100%)**
Equity attributable to the owners of the parent excl. participation capital	**2,209**	**2,053**	**7.6%**	**1,870**	**18.1%**
Non-controlling interests	295	395	(25.3%)	394	(25.1%)
Total liabilities and equity	**34,431**	**36,402**	**(5.4%)**	**39,390**	**(12.6%)**

Liabilities at fair value through profit or loss decreased significantly by EUR 976 million (32.9%) to EUR 1,992 million, driven by the redemption of an own issue with a notional value of EUR 960 million in February 2014.

Deposits from customers decreased by EUR 801 million (3.6%) to EUR 21,212 million, resulting primarily from the run-off of legacy fixed savings accounts that were not renewed. The loan-to-deposit ratio stood at 98.8%.

IFRS equity excluding non-controlling interests and participation capital increased by EUR 156 million to EUR 2,209 million as of 31 March 2014. The change was driven by the first quarter's net profit and a shareholder contribution in the amount of EUR 125 million as well as remaining coupon payments.

CAPITAL AND LIQUIDITY POSITION

With the full redemption of the remaining EUR 350 million of participation capital, one of our goals for 2014 was achieved during the first quarter. The capital contribution from our shareholders of EUR 125 million strongly supported the Bank's target of a fully loaded CET I capital ratio of > 10%, which the Bank also achieved during the first quarter. Capital positions that are not fully eligible have been further reduced as the streamlining and simplification of the capital structure continues.

BAWAG P.S.K. has retained a very comfortable liquidity position while continuing to focus on the optimization of its liability structure, including the further reduction of outstanding own issues and an increased focus on customer deposits, the core funding source of the Bank. This is fully reflected in the loan-to-deposit ratio (98.8% as of March 2014), but also in the liquidity coverage ratio (112.9% as of March 2014).

BUSINESS SEGMENTS

RETAIL BANKING AND SMALL BUSINESS

Q1 2014 Business Review

BAWAG P.S.K.'s retail business has continued with strong momentum in the first quarter of 2014, driven by increasing core revenues (+ EUR 20.2 million compared to the first quarter of 2013) and lower operating expenses (- EUR 12.6 million compared to the first quarter of 2013). This result has been achieved despite an environment of low interest rates.

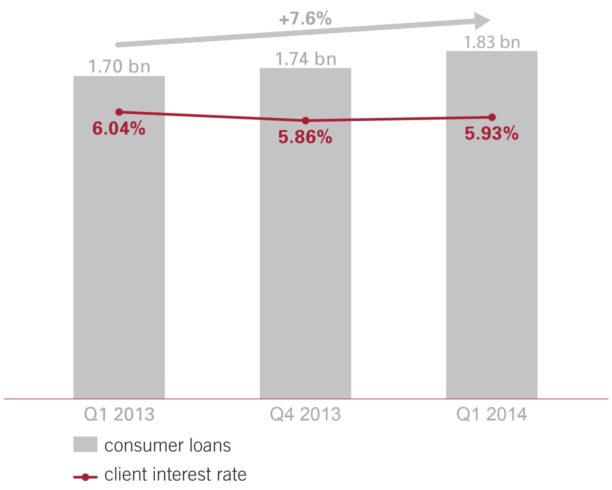
A large number of initiatives in BAWAG P.S.K.'s Retail Banking and Small Business segment have driven this strong performance and key highlights include:

- Continued expansion of the retail loan book despite a slightly declining overall market
- Optimization of the retail funding costs as customers migrate from fixed-rate term deposits to variable-rate savings
- Further emphasis on fee products to drive net fee and commission income
- Ongoing migration to digital channels to enhance overall customer experience and reduce operating expenses

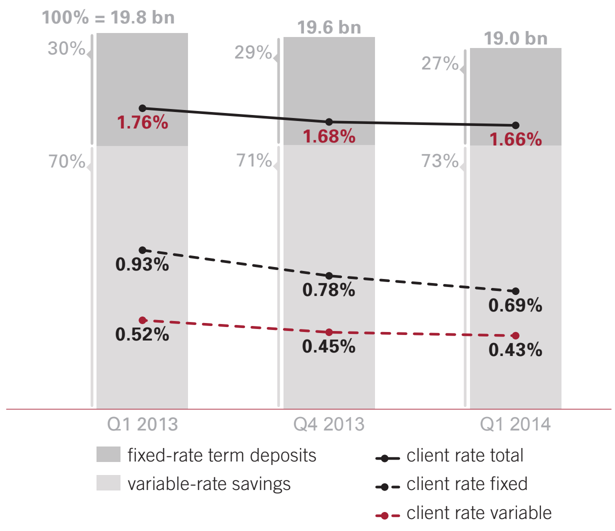
Continued expansion of the retail loan book despite a slightly declining overall market
Total retail assets stood at EUR 9.5 billion as of 31 March 2014. Solid growth in consumer loans and housing loans led to a further increase in market shares for both products. In the course of Q1 2014, the market share in consumer loans and housing loans increased from 8.0% to 8.5% and from 4.7% to 4.8%, respectively.

This gain in the market share of consumer loans has been achieved in a stagnating market in which total market volume has decreased by approximately 2% to EUR 21.4 billion since December 2013. Despite a very competitive market, BAWAG P.S.K. managed to both grow net assets and maintain pricing.

Consumer Loans and Client Interest Rate



Retail Deposit Volume Development



Optimization of the retail funding costs as customers migrate from fixed-rate term deposits to variable-rate savings

At the end of Q1 2014, total retail deposits amounted to EUR 19.0 billion (compared to EUR 19.6 billion in Q4 2013 and EUR 19.8 billion in Q1 2013). The main focus has been on shifting customers from term deposits (fixed-rate savings books) to variable-rate savings products (primarily in the form of savings cards). By doing so, we successfully reduced funding costs and improved efficiency (e.g., via the elimination of the annual renewal process at the counter). This resulted in a proactively managed outflow of savings from non-strategic customers (i.e., single-product customers) as we focused on increasing sales force productivity. In the first quarter of 2014, approximately 73% of total retail deposits were already in the form of variable-rate products, which contributed to the reduced total customer interest rate of 0.69% compared to 0.93% a year earlier and 0.78% in Q4 2013. Further, the migration from savings books to variable-rate savings cards enhances customer experience, as customers can use self-service devices for these products, and provides our sales force with greater capacity to focus on advisory services and addressing the various product needs of our customers.

easybank

easybank, the 100% direct banking subsidiary of BAWAG P.S.K., also started with a strong performance in Q1 2014. easybank managed to maintain its deposit base at EUR 2.7 billion while continuing to be the low-cost leader with regard to the pricing of savings products across direct banks. In the same period, easybank opened more than 11,000 new accounts (current accounts, savings accounts, credit card accounts and others), resulting in more than 473,000 accounts at the end of March 2014.

Besides the excellent financial performance, easybank was named the best direct bank in a banking study conducted by ÖGVS – Gesellschaft für Verbraucherstudien and the trade journal *Format* in January 2014, evaluating the criteria of attractiveness, transparency, customer orientation and product offering.

Further emphasis on fee products to drive net fee and commission income

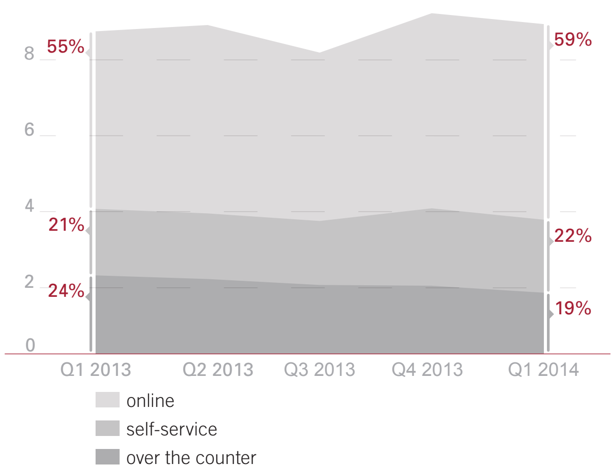
BAWAG P.S.K.'s attractive KontoBoxes (current accounts) continue to be the anchor product of our Retail Banking and Small Business segment, accounting for approximately 34% of the retail net fee and commission income together with the related payment products. In Q1 2014, BAWAG P.S.K. (including easybank) increased its stock of current accounts by approximately 10,000 accounts and in March 2014 launched the "KontoBox Österreich" as a limited edition offering within our KontoBox family to complement our existing current account offering and drive greater customer growth.

The new boxes launched in Q4 2013 (“ErtragsBox” and “VorsorgeBox”) have helped to optimize the product mix and drive fund sales of EUR 337 million in Q1 2014 (+10% year-over-year). All these initiatives resulted in increased net fee and commission income of EUR 46.0 million (+ EUR 5.0 million compared to the first quarter of 2013).

Ongoing migration to digital channels to enhance overall customer experience and reduce operating expenses

As part of our multi-channel strategy, we push the usage of self-service, online and mobile channels by our clients with the aim to both enhance customer experience and reduce operating expenses. The share of counter transactions dropped to 19% in Q1 2014, while the share of self-service and online/mobile transactions increased to 22% and 59%, respectively. This allows us to save approximately EUR 2 million in transaction costs at the counter per annum. This trend is also reflected in the growing number of active e-banking users of approximately +7% compared to Q1 2013 (representing approximately 42% of total current account customers) as well as the growing number of mobile app users of approximately +43% compared to Q1 2013 (representing approximately 13% of current account customers).

Payment Transactions per Channel (in millions)



Financial Results

Income metrics (in EUR million)	**Q1 2014**	Q1 2013	Change	
Net interest income	94.9	79.6	15.3	19.2%
Net fee and commission income	46.0	41.0	5.0	12.2%
Core revenues	**140.9**	**120.7**	**20.2**	**16.7%**
Gains and losses on financial instruments	0.3	0.5	(0.2)	(40.0%)
Other operating income and expenses	0.7	0.1	0.6	>100%
Operating income	**141.9**	**121.2**	**20.6**	**17.0%**
Total operating expenses	**(91.0)**	**(103.7)**	**(12.6)**	**(12.2%)**
Total risk costs	(9.1)	(9.1)	–	–
Profit before tax (= net profit)	**41.7**	**8.5**	**33.2**	**>100%**

Business volumes (in EUR million)	**Mar 2014**	Mar 2013	Change	
Assets	9,536	9,645	(109)	(1.1%)
Risk-weighted assets	3,272	3,484	(212)	(6.1%)
Customer deposits	19,023	19,803	(780)	(3.9%)

Key ratios (in%)	**Q1 2014**	Q1 2013
Return on equity [1)]	40.52%	8.70%
Return on risk-weighted assets	5.23%	0.76%
Net interest margin	3.98%	3.28%
Cost-income ratio	64.17%	85.51%
Risk costs / loans and receivables	0.39%	0.38%
NPL ratio	3.45%	6.29%

1) Return on equity = net profit / average allocated IFRS equity

Operating income increased by 17% compared to the first quarter of 2013, mainly as a result of stronger net interest income and improved net fee and commission income. Despite the low interest rate level, the continued optimization of the deposit structure, mainly the shift from higher cost fixed-rate savings into variable deposits and the outflow of non-strategic deposits delivered a positive uplift in the net interest income. Net commission income shows an increase of EUR 5.0 million to EUR 46.0 million, which was primarily driven by a positive one-off effect in the first quarter of 2014, while the baseline development remained stable. The continued operating efficiency improvements had a positive effect of EUR 12.6 million on the profit line. The very low level of risk provisions of approximately 39 basis points remained stable, representing the very high credit quality of the book.

CORPORATE LENDING AND INVESTMENTS

Q1 2014 Business Review

Corporate Lending and Investments includes our Austrian corporate and public sector business as well as our international corporate and real estate lending and investment activities.

As a result of the overall strategic repositioning of the Bank, we aggressively identified and continued to manage down loan assets that we view to be "non-core" due to return deficiency, geographic exposure, business line or some combination thereof. On the other hand, we continue to focus on maintaining and increasing our "core" lending and investment opportunities predominantly in Austria and selected parts of Western Europe.

The **Austrian business** continues its strategy of providing our core clients with a full product range combining standard loan products and tailored financial solutions, including our payments and cash management services. We are also continuing our active portfolio management for non-core exposures in order to optimize the risk-return profile or effect orderly refinancings.

Highlights in Q1 2014:

- **Austrian corporate lending volumes** – In an overall market facing stable to slightly decreasing volumes due to muted overall domestic corporate loan demand, our disbursement of new corporate term loans was EUR 162 million compared to EUR 108 million in the first quarter of 2013. Overall loan funded asset balances were lower year-over-year, primarily reflecting our portfolio management activities, where we proactively worked to refinance and redeem underperforming loans, as well as general refinancing activity in the sector. This decrease of non-core exposures contributed EUR 835 million to the total decrease compared to 31 March 2013. The business teams have been active across industries in establishing new or refinancing available borrowing facilities during the first quarter of 2014; as a result, we anticipate a slightly positive trend in new business volumes in the second quarter. Overall, lending margins remained stable, reflecting success in certain repricing activities in our portfolio management segment and increased market discipline in certain areas, offset by a continued highly competitive environment. Our activities in corporate lending in the first quarter continue to support our dedication to being a reliable financing partner in Austria while also maintaining the risk-adjusted return discipline across the portfolios.
- Our **public sector business** remains integral to our overall Austrian lending franchise both in lending and payment relationships. Volumes decreased overall during the quarter, with normal refinancing activity or maturities offset by a continued increase in the competitive landscape for new funding. However, during this period our blended lending margins increased slightly on our outstanding balances, reflecting our disciplined pricing despite the capital benefits realized overall in the sector. We remain very active with our customers, especially in funding long-term, sustainable projects with strong municipal or regional sponsorship. Among others, we have recently led innovative projects for the sustainable generation of energy from sewage sludge and water for communities in Burgenland and Styria.
- **Payments**: In 2014, payment and cash management products form the focus of our fee income activities in the corporate segment. In February 2014, SEPA was successfully implemented and our active service and support of our core payment clients helped to achieve a solid transition. A new cash management tool being offered to our clients is also part of the payment activities. Overall, while total commission income was moderately lower in the quarter compared to the first quarter of 2013, this was mainly due to certain one-off items in 2013 and lower payments income from non-core customers. However, payments commission income from our core client base increased slightly compared to the first quarter of 2013, and we expect this trend to be stable.

Our **international corporate business** reported a new investment volume of EUR 460 million compared to redemptions of EUR 317 million in Q1 2014, as a number of existing loans were repriced and refinanced as companies took advantage of the continuing low interest rates and strong market conditions overall. Our new business volume reflected a mix of high yield and investment grade bond purchases combined with more conservatively structured leveraged loans, albeit with lower gross margins. Our balance margin development was only slightly negative overall in the first quarter vs. the final quarter of 2013 due to reduced yields on certain leveraged loans that were refinanced over the past six months. Funded volumes totaled EUR 2,340 million at the end of the first quarter.

Our **international real estate financing operations** funded new business in the amount of EUR 130 million and had redemptions of EUR 120 million. However, the net new funded volume from our visible pipeline of committed and likely transactions is expected to increase during the second quarter. Transaction diversification continues across our commercial real estate lending business on a geographic, asset and industry basis with a specific increased focus on select senior secured loan portfolio financing transactions with low LTVs, strong cash flow and covenant characteristics as well as shorter weighted expected maturities. Overall portfolio performance and credit trends remain strong with some shortening of overall duration as loan amortizations increase somewhat ahead of projections. Funded volumes totaled EUR 2,340 million at the end of the first quarter.

Financial Results

Income metrics (in EUR million)	**Q1 2014**	Q1 2013	Change	
Net interest income	44.6	47.2	(2.7)	(5.7%)
Net fee and commission income	11.7	13.6	(1.9)	(14.0%)
Core revenues	**56.3**	**60.8**	**(4.6)**	**(7.6%)**
Gains and losses on financial instruments	0.4	5.7	(5.3)	(93.0%)
Other operating income and expenses	–	–	–	–
Operating income	**56.7**	**66.5**	**(9.9)**	**(14.9%)**
Total operating expenses	**(20.1)**	**(23.3)**	**(3.1)**	**(13.3%)**
Total risk costs	(12.0)	(20.0)	(8.0)	(40.0%)
Profit before tax (= net profit)	**24.5**	**23.3**	**1.2**	**5.2%**

Business volumes (in EUR million)	**Mar 2014**	Mar 2013	Change	
Assets	13,022	14,496	(1,474)	(10.2%)
Risk-weighted assets	7,205	8,149	(944)	(11.6%)
Customer deposits (including other refinancing)	3,190	3,744	(554)	(14.8%)

Key ratios (in %)	**Q1 2014**	Q1 2013
Return on equity [1]	10.69%	12.44%
Return on risk-weighted assets	1.38%	1.09%
Net interest margin	1.37%	1.28%
Cost-income ratio	35.53%	34.99%
Risk costs / loans and receivables	0.41%	0.61%
NPL ratio	2.82%	3.04%

1) Return on equity = net profit / average allocated IFRS equity

Operating income in the first quarter amounted to EUR 56.7 million. Despite the deleveraging of non-core assets, net interest income decreased only slightly by EUR 2.7 million to EUR 44.6 million compared to the first quarter of 2013. Net fee and commission income fell from EUR 13.6 million to EUR 11.7 million as a result of deleveraging and positive one-off items in the first quarter of 2013. Improved operating efficiency resulted in a 13.3% decrease in the cost base. Lower risk costs of EUR 8.0 million reflect positive impacts from de-risking, showing a total net contribution of the segment of EUR 24.5 million for the first quarter of 2014, compared to EUR 23.3 million in the first quarter of 2013.

Overall deleveraging and de-risking led to a reduction from the first quarter of 2013 to the first quarter of 2014 of approximately EUR 1.5 billion in assets and a decrease in risk-weighted assets of approximately EUR 0.9 billion, while assets show a stable development since year-end 2013.

TREASURY SERVICES AND MARKETS

Q1 2014 Business Review

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

Among the key responsibilities of Treasury Services and Markets is the management of the Bank's excess liquidity from the core funding franchise in its available-for-sale and held-to-maturity portfolios as well as certain hedging positions. The investment strategy continues to be highlighted by investments in investment grade rated securities predominately representing unsecured and secured bonds of financials in core Europe and the United States as well as selected sovereign bond investments. During the first quarter, EUR 828 million of purchases were made against EUR 531 million of maturities or sales.

The Bank increased investment and designation in held-to-maturity securities to EUR 1,711 million at the end of the quarter, up EUR 938 million from year-end 2013, while at the same time available-for-sale securities were reduced by EUR 388 million. This resulted from our continued portfolio rebalancing between long-term investment securities while still maintaining our available-for-sale portfolio to preserve flexibility for redeployment in other customer loans or receivables or other balance sheet management activities.

As of 31 March 2014 the total investment portfolio amounted to EUR 5.7 billion. The portfolio's average duration was 3.31 years, 99.8% of the portfolio was rated investment grade (only EUR 13 million of a single country sovereign exposure is rated below investment grade) and 85% of the portfolio was rated single A or higher. This overall composition reflects our strategy to maintain a high credit quality, shorter duration and strong liquidity in our securities portfolio overall in order to balance incremental net interest income against reduced fair value volatility.

Financial Results

Income metrics (in EUR million)	**Q1 2014**	Q1 2013	Change	
Net interest income	13.2	12.8	0.4	3.1%
Net fee and commission income	0.1	0.1	–	–
Core revenues	**13.3**	**12.9**	**0.4**	**3.1%**
Gains and losses on financial instruments	0.2	8.8	(8.6)	(97.7%)
Other operating income and expenses	–	–	–	–
Operating income	**13.5**	**21.8**	**(8.2)**	**(37.6%)**
Total operating expenses	**(5.5)**	**(9.9)**	**(4.4)**	**(44.4%)**
Total risk costs	–	–	–	–
Profit before tax (= net profit)	**8.0**	**11.9**	**(3.9)**	**(32.8%)**

Business volumes (in EUR million)	**Mar 2014**	Mar 2013	Change	
Assets	5,719	4,773	946	19.8%
Risk-weighted assets	2,180	1,269	911	71.8%

Key ratios (in %)	**Q1 2014**	Q1 2013
Return on equity [1)]	13.83%	37.15%
Return on risk-weighted assets	1.79%	3.26%
Net interest margin	0.98%	1.01%
Cost-income ratio	40.72%	45.31%

1) Return on equity = net profit / average allocated IFRS equity

Net interest income increased from EUR 12.8 million in the first quarter of 2013 to EUR 13.2 million in the first quarter of 2014, showing a stable development of the core performance of the segment. Selective new investments further supported the strong core operating performance, while the impact on the item gains and losses on financial instruments has been significantly reduced. The increase in risk-weighted assets is mainly driven by the Basel 3 impact on the risk weightings of financials and selective asset deployment. Higher operating efficiency had a positive effect of EUR 4.4 million on the cost base.

CORPORATE CENTER

Q1 2014 Review

Our Corporate Center contains central functions such as Risk and Legal as well as the Group ALM activities. The liquidity buffer of the Bank represents the largest portion of total assets in the Corporate Center, while own issues represent the main part of the liabilities. The remaining parts relate to run-off positions, hedging activities and non-core participations. In addition to the bank levy, all restructuring expenses and other one-off items are included in this segment.

In the first quarter of 2014, we further reduced assets and liabilities in the Corporate Center by optimizing our balance sheet structure and continuing to focus on our core business segments. This included the repayment of own issues including the full redemption of the participation capital held by the Republic of Austria.

Financial Results

Income metrics (in EUR million)	**Q1 2014**	Q1 2013	Change	
Net interest income	0.3	(17.0)	17.3	>100%
Net fee and commission income	(2.7)	(2.8)	0.1	3.6%
Core revenues	**(2.4)**	**(19.8)**	**17.4**	**87.9%**
Gains and losses on financial instruments	17.4	50.1	(32.7)	(65.3%)
Other operating income and expenses	8.6	1.2	7.4	>100%
Operating income	**23.6**	**31.5**	**(7.9)**	**(25.1%)**
Core operating expenses	**(10.4)**	**(7.6)**	**2.8**	**36.8%**
Restructuring expenses and other one-off items	–	(7.3)	(7.3)	(100%)
Total operating expenses	**(10.4)**	**(14.9)**	**(4.5)**	**(30.4%)**
Bank levy	(6.1)	(6.3)	(0.2)	(3.2%)
Total risk costs	1.5	(1.1)	2.6	>100%
Profit before tax	**8.1**	**8.7**	**(0.6)**	**(6.9%)**
Volumes (in EUR million)	**Mar 2014**	Mar 2013	Change	
Liquidity reserve and other assets	6,153	10,475	(4,322)	(41.3%)
Risk-weighted assets	4,341	4,836	(495)	(10.2%)
Own issues, equity and other liabilities	12,218	15,843	(3,625)	(22.9%)

Further deleveraging and reduction of the Corporate Center shows a stabilization of core revenues and an overall stable profit before tax of EUR 8.1 million. This includes a significantly lower reliance on the position gains and losses on financial instruments and other non-recurring items.

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, we would like to draw the reader's attention to the information in the Notes to the Consolidated Interim Financial Statements.

EVENTS AFTER THE REPORTING DATE

On 16 April 2014, Moody's raised BAWAG P.S.K.'s Bank Financial Strength Rating by one notch to D+/ba1 (stable outlook). At the same time, the systemic support from the Republic of Austria was reduced from three to two notches. This results in an unchanged long-term senior unsecured debt and deposit rating of Baa2, but the outlook was changed to positive. In addition, Moody's raised the subordinated debt rating by one notch to Ba2, also with a positive outlook.

According to the rating agency, the upgraded BFSR reflects the continued de-risking of the balance sheet, the Bank's significantly strengthened capital base as well as its improvement in profitability.

BAWAG Capital Finance (Jersey) Limited announced to exercise its call option in relation to Perpetual Non-Cumulative Non-Voting Fixed/Floating Rate Preference Shares issued in 2000. BAWAG Capital Finance (Jersey) Limited will redeem 58,629 Preference Shares of EUR 1,000 each per 31 July 2014.

Vienna, 13 May 2014

Byron Haynes m.p.
CEO and Chairman of the Managing Board

Wolfgang Klein m.p.
Deputy Chairman of the Managing Board

Anas Abuzaakouk m.p.
Member of the Managing Board

Jochen Klöpper m.p.
Member of the Managing Board

Corey Pinkston m.p.
Member of the Managing Board

Consolidated Interim Financial Statements

CONSOLIDATED ACCOUNTS

CONSOLIDATED PROFIT OR LOSS STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2014

in EUR million	(Notes)	Q1 2014	Q1 2013
Interest income		267.1	263.5
Interest expense		(114.1)	(143.5)
Dividend income		0.0	2.7
Net interest income	(1)	**153.0**	**122.7**
Fee and commission income		82.1	75.3
Fee and commission expenses		(27.0)	(23.4)
Net fee and commission income	(2)	**55.1**	**51.9**
Gains and losses on financial assets and liabilities	(3)	18.2	65.1
Other operating income and expenses		3.2	(5.1)
Operating expenses	(4)	(127.0)	(151.7)
Provisions and impairment losses	(5)	(19.6)	(30.1)
Share of the profit or loss of associates accounted for using the equity method		(0.6)	(0.4)
Profit before tax		**82.3**	**52.4**
Income taxes		(2.0)	(7.1)
Profit after tax		**80.3**	**45.3**
Thereof attributable to non-controlling interests		0.3	0.2
Thereof attributable to owners of the parent		**80.0**	**45.1**

In accordance with IFRS, the item Other operating income and expenses also includes the bank levy in the amount of EUR 6.1 million. However, the Bank's management sees the bank levy as part of the operating expenses. Accordingly, it is shown in a separate expense line in the Interim Group Management Report.

Operating expenses include the items Administrative expenses and Depreciation and amortization on tangible and intangible non-current assets, which were shown in separate lines in the previous year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2014

in EUR million	Q1 2014	Q1 2013
Profit after tax	**80.3**	**45.3**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gain/loss on defined benefit plans	0.0	0.0
Income tax on items that will not be reclassified	0.0	0.0
Total items that will not be reclassified to profit or loss	**0.0**	**0.0**
Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences	0.0	0.0
Available for sale reserve	2.4	(25.1)
Share of other comprehensive income of associates accounted for using the equity method	0.0	0.0
Income tax relating to items that may be reclassified	(0.8)	5.9
Total items that may be reclassified subsequently to profit or loss	**1.6**	**(19.2)**
Total comprehensive income, net of tax	**81.9**	**26.1**
Thereof attributable to non-controlling interests	0.3	0.7
Thereof attributable to owners of the parent	**81.6**	**25.4**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2014

Total assets

in EUR million	(Notes)	Mar 2014	Dec 2013
Cash reserves		474	481
Financial assets designated at fair value through profit or loss		612	753
Available-for-sale financial assets	(6)	4,424	5,126
Held-to-maturity investments	(7)	1,711	773
Assets held for trading	(8)	1,143	1,081
Loans and receivables	(9)	25,245	27,256
Customers		20,948	20,980
Securities		2,502	2,485
Credit institutions		1,795	3,791
Hedging derivatives		202	164
Property, plant and equipment		84	85
Goodwill		59	59
Software and other intangible assets		89	83
Tax assets for current taxes		6	5
Tax assets for deferred taxes		243	245
Associates recognized at equity		18	18
Other assets		121	273
Total assets		**34,431**	**36,402**

The line item Property, plant and equipment was renamed compared to the consolidated financial statements as of 31 December 2013 (Tangible non-current assets). The line items Goodwill and Software and other intangible assets were shown under the line item Intangible non-current assets in the consolidated financial statements as of 31 December 2013 and in Note 17 of this consolidated interim report.

Total liabilities and equity

in EUR million	(Notes)	Mar 2014	Dec 2013
Financial liabilities designated at fair value through profit or loss	(10)	1,992	2,968
Liabilities held for trading	(11)	1,057	1,298
Financial liabilities at amortized cost	(12)	27,653	28,222
Customers		21,212	22,013
Issued bonds, subordinated and supplementary capital		4,577	4,563
Credit institutions		1,864	1,646
Valuation adjustment on interest rate risk hedged portfolios		51	(2)
Hedging derivatives		94	126
Provisions	(13)	474	504
Tax liabilities for current taxes		1	1
Tax liabilities for deferred taxes		10	10
Other obligations		595	477
Total equity		2,504	2,798
Equity attributable to the owners of the parent		2,209	2,403
Non-controlling interests		295	395
Total liabilities and equity		**34,431**	**36,402**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Participation capital [1]	Capital reserves	Retained reserves	AFS reserve net of tax	Foreign exchange differences	Actuarial gains/losses net of tax	Accumulated other comprehen-sive income, net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2013	**250.0**	**550.0**	**1,447.4**	**50.1**	**171.6**	**0.5**	**(24.6)**	**147.5**	**2,445.0**	**393.4**	**2,838.4**
Transactions with owners	–	–	–	–	–	–	–	–	–	(0.2)	(0.2)
Dividends non-controlling interests	–	–	–	–	–	–	–	–	–	(0.2)	(0.2)
Dividend on participation capital	–	–	–	(51.2)	–	–	–	–	(51.2)	–	(51.2)
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	45.0	(19.2)	–	–	(19.2)	25.8	0.7	26.5
Balance as of 31.03.2013	**250.0**	**550.0**	**1,447.4**	**43.9**	**152.4**	**0.5**	**(24.6)**	**128.3**	**2,419.6**	**393.9**	**2,813.5**
Balance as of 01.01.2014	**250.0**	**350.0**	**1,510.7**	**228.0**	**98.8**	**0.0**	**(34.4)**	**64.4**	**2,403.1**	**395.3**	**2,798.4**
Transactions with owners	–	–	–	–	–	–	–	–	–	–	–
Dividends non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Owner's contribution	–	–	129.0	–	–	–	–	–	129.0	–	129.0
Redemption of participation capital	–	(350.0)	–	–	–	–	–	–	(350.0)	–	(350.0)
Dividend on participation capital	–	–	–	(54.5)	–	–	–	–	(54.5)	–	(54.5)
Redemption of non-controlling interests	–	–	–	–	–	–	–	–	–	(101.0)	(101.0)
Total comprehensive income	–	–	–	80.0	1.6	–	–	1.6	81.6	0.3	81.9
Balance as of 31.03.2014	**250.0**	**0.0**	**1,639.7**	**253.5**	**100.4**	**0.0**	**(34.4)**	**66.0**	**2,209.2**	**294.6**	**2,503.8**

1) Participation capital according to section 23 (4) BWG.

CASH FLOW STATEMENT

in EUR million	Q1 2014	Q1 2013
Cash and cash equivalents at end of previous period	**481**	**481**
Net cash from operating activities	467	(840)
Net cash used in investing activities	(198)	669
Net cash from financing activities	(276)	(60)
Cash and cash equivalents at end of period	**474**	**250**

NOTES TO THE INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2014

The consolidated interim financial statements of BAWAG P.S.K. Group as of 31 March 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and adopted by the EU and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC).
These unaudited interim financial statements for the first quarter of 2014 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 2013.

The following standards and amendments to existing standards are mandatory for periods beginning on 1 January 2014, but have no major effect on the consolidated interim financial statements of BAWAG P.S.K.:

- Amendments to IAS 36 *Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- Amendments to IAS 27 *Separate Financial Statements*
- Amendments to IAS 28 *Investments in Associates and Joint Ventures*

The valuation principles as of 31 December 2013 were applied again.

The Group consists of 43 fully consolidated entities (31 December 2013: 43) and 1 entity that is accounted for using the equity method (31 December 2013: 1) in Austria and abroad.

The interim financial statements for the first quarter of 2014 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 2013, we refer to the Notes to the consolidated financial statements as of 31 December 2013.

REPAYMENT OF PARTICIPATION CAPITAL AND SHAREHOLDER'S CONTRIBUTION

The Shareholder Meeting of BAWAG P.S.K. AG decided on 12 March 2014 the full redemption of the outstanding participation capital in the amount of EUR 350 million effective 13 March 2014. The Austrian Financial Market Authority (FMA) has granted approval for the redemption of the remaining participation capital.

In addition, BAWAG P.S.K. AG paid a dividend of EUR 47.7 million for 2013 to the holders of the participation capital as well as a pro-rata dividend of EUR 6.8 million for the first quarter of 2014.

Effective 11 March 2014, a capital contribution of EUR 125 million was made in BAWAG P.S.K. AG in the form of a grandparent capital contribution subscribed by existing shareholders.

CHANGES IN THE GROUP'S HOLDINGS

Effective 21 February 2014 P.S.K. Beteiligungsverwaltungs GmbH sold all its shares in MKB Bank Zrt. The two Hungarian leasing companies BAWAG Leasing Zrt and BAWAG Leasing & Fleet Kft. were sold on 23 December 2013 under a management buyout. The closing of the transaction was completed on 31 March 2014.

EVENTS AFTER THE REPORTING DATE

BAWAG Capital Finance (Jersey) Limited announced to exercise its call option in relation to Perpetual Non-Cumulative Non-Voting Fixed/Floating Rate Preference Shares issued in 2000. BAWAG Capital Finance (Jersey) Limited will redeem 58,629 Preference Shares of EUR 1,000 each per 31 July 2014.

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

1 | Net interest income

in EUR million	Q1 2014	Q1 2013
Interest income	**267.1**	**263.5**
Loans and receivables	151.0	157.8
Other interest bearing financial assets	116.1	105.7
Interest expense	**(114.1)**	**(143.5)**
Deposits and own issues	(72.4)	(103.0)
Other interest bearing financial liabilities	(41.7)	(40.5)
Dividend income	**0.0**	**2.7**
Net interest income	**153.0**	**122.7**

2 | Net fee and commission income

in EUR million	Q1 2014	Q1 2013
Fee and commission income	**82.1**	**75.3**
Payment transfers	47.7	41.4
Lending	7.4	6.3
Securities and custody business	15.7	15.5
Other	11.3	12.1
Fee and commission expenses	**(27.0)**	**(23.4)**
Payment transfers	(10.6)	(6.7)
Payments to Österreichische Post AG	(12.6)	(13.5)
Other	(3.8)	(3.2)
Net fee and commission income	**55.1**	**51.9**

3 | Gains and losses on financial assets and liabilities

in EUR million	Q1 2014	Q1 2013
Realized gains on sales of securities	10.7	24.5
Fair value gains and losses	12.0	34.1
Gains (losses) from fair value hedge accounting	1.0	3.4
Others	(5.5)	3.1
Gains and losses on financial assets and liabilities	**18.2**	**65.1**

4 | Operating expenses

in EUR million	Q1 2014	Q1 2013
Staff costs	(73.6)	(84.9)
Other administrative expenses	(45.9)	(46.0)
Restructuring and other one-off expenses	0.0	(7.3)
Depreciation and amortization on tangible and intangible non-current assets	(7.5)	(13.5)
Operating expenses	**(127.0)**	**(151.7)**

The line item Restructuring and other one-off expenses mainly includes restructuring costs in the first quarter of 2014, offset by the release of a provision for legal costs, therefore totalling to EUR 0.

5 | Provisions and impairment losses

in EUR million	Q1 2014	Q1 2013
Loan loss provisions and changes in provisions for off-balance credit risk	(19.6)	(27.4)
Impairment losses on financial assets	0.0	(2.7)
Provisions and impairment losses	**(19.6)**	**(30.1)**

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

6 | Available-for-sale financial assets

in EUR million	Mar 2014	Dec 2013
Bonds and other interest bearing securities	**4,325**	**5,028**
Bonds of other issuers	3,766	4,222
Public sector debt instruments	559	806
Subsidiaries and other equity investments	**99**	**98**
Available-for-sale financial assets	**4,424**	**5,126**

7 | Held-to-maturity financial investments

in EUR million	Mar 2014	Dec 2013
Bonds and other fixed income securities	1,711	773

In the first quarter of 2014, BAWAG P.S.K. reclassified a part of its available-for-sale financial assets as held-to-maturity investments. The effects of reclassification from available-for-sale to held-to-maturity are shown in the following table:

in EUR million	Carrying amount	Fair value
Available-for-sale financial assets	(323)	(323)
Held-to-maturity investments	323	323

8 | Assets held for trading

in EUR million	Mar 2014	Dec 2013
Positive fair values of derivative financial instruments	**1,143**	**1,081**
Derivatives in trading book	382	378
Derivatives in banking book	761	703
Assets held for trading	**1,143**	**1,081**

9 | Loans and receivables

Mar 2014 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	**20,558**	**751**	**(287)**	**(74)**	**20,948**
Corporates and other customers	13,393	492	(155)	0	13,730
Retail	7,079	259	(132)	(42)	7,164
Central governments	86	0	0	0	86
Portfolio impairment provision [1]	0	0	0	(32)	(32)
Securities	**2,502**	**0**	**0**	**0**	**2,502**
Receivables from credit institutions	**1,794**	**6**	**(5)**	**0**	**1,795**
Total	**24,854**	**757**	**(292)**	**(74)**	**25,245**

1) Allowance for incurred but not reported losses.

Dec 2013 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	**20,580**	**754**	**(270)**	**(84)**	**20,980**
Corporates and other customers	13,549	495	(155)	(1)	13,888
Retail	6,943	259	(115)	(50)	7,037
Central governments	88	0	0	0	88
Portfolio impairment provision [1]	0	0	0	(33)	(33)
Securities	**2,485**	**0**	**0**	**0**	**2,485**
Receivables from credit institutions	**3,790**	**6**	**(5)**	**0**	**3,791**
Total	**26,855**	**760**	**(275)**	**(84)**	**27,256**

1) Allowance for incurred but not reported losses.

Receivables from credit institutions – Regional breakdown

in EUR million	**Mar 2014**	Dec 2013
Domestic	988	1,884
International	807	1,907
Receivables from credit institutions	**1,795**	**3,791**

Receivables from customers – Regional breakdown

in EUR million	Mar 2014	Dec 2013
Domestic	16,433	16,446
International	4,515	4,534
Receivables from customers	**20,948**	**20,980**

Receivables from customers – Breakdown by credit type

in EUR million	Mar 2014	Dec 2013
Loans	17,905	17,976
Current accounts	1,559	1,504
Finance leases	764	792
Cash advances	720	708
Receivables from customers	**20,948**	**20,980**

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

in EUR million	Mar 2014	Dec 2013
Issued debt securities	1,546	2,521
Subordinated and supplementary capital	446	447
Financial liabilities designated at fair value through profit or loss	**1,992**	**2,968**

The change in issued bonds (own issues) can primarily be attributed to the redemption of a bond with a nominal value of EUR 960 million.

11 | Liabilities held for trading

in EUR million	Mar 2014	Dec 2013
Negative fair values of derivative financial instruments	**1,057**	**1,298**
Derivatives trading book	359	342
Derivatives banking book	698	956
Liabilities held for trading	**1,057**	**1,298**

12 | Financial liabilities measured at amortized cost

in EUR million	Mar 2014	Dec 2013
Deposits from banks	**1,864**	**1,646**
Customer deposits	**21,212**	**22,013**
Savings deposits	8,956	9,433
Other deposits	12,256	12,580
Issued bonds, subordinated and supplementary capital	**4,577**	**4,554**
Issued debt securities	3,951	3,947
Subordinated and supplementary capital	626	607
Financial liabilities measured at amortized cost	**27,653**	**28,213**

Deposits from banks – Regional breakdown

in EUR million	Mar 2014	Dec 2013
Domestic	716	681
International	1,148	965
Payables to credit institutions	**1,864**	**1,646**

Deposits from customers – Regional breakdown

in EUR million	Mar 2014	Dec 2013
Domestic	20,881	21,682
International	331	331
Payables to customers	**21,212**	**22,013**

13 | Provisions

in EUR million	Mar 2014	Dec 2013
Long-term employee provisions	435	435
Anticipated losses on pending business	28	32
Other items	11	37
Provisions	**474**	**504**

14 | Related Parties

With regard to Related Parties transactions there have not been material changes compared to the year-end disclosure in the consolidated financial statements as of 31 December 2013.

15 | Segment reporting

This information is based on the Group structure as of 31 March 2014.
The segment reporting presents the results of the operating business segments of BAWAG P.S.K. Group. 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. This method was refined in 2014, and funding costs are now more accurately reflected in the internal funds transfer pricing, especially for the strategic premiums. The interest rate risk is managed actively through asset and liability management, and the results of this are reported by the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective units of the company on the basis of where they are incurred.

The overhead costs are assigned to the individual segments according to an allocation factor. Furthermore, trading book derivatives – as non-core legacy positions – were reallocated from Treasury Services and Markets to Corporate Center/ALM.

As of January 2014, certain changes in the business segment reporting have been made to reflect the adjustments in the overall strategy, developments and the business management at BAWAG P.S.K. The prior year's figures have been adjusted accordingly. A summary of the major changes and rationale are described below:

CHANGE	OLD REPORTING	NEW REPORTING
Austrian corporate business	Corporates	Corporate Lending and Investments
International business	International business	Corporate Lending and Investments

The Bank continued to consolidate management of the Austrian corporate business and international investment business.

CHANGE	OLD REPORTING	NEW REPORTING
Leasing	Corporates	Retail Banking and Small Business

The Bank's leasing operations have been repositioned to focus almost exclusively on consumer-based vehicle financing. This is closely aligned with our overall consumer lending initiative in the retail segment.

CHANGE	OLD REPORTING	NEW REPORTING
Social housing	Corporates	Retail Banking and Small Business
Wohnbaubank	Corporate Center/ALM	Retail Banking and Small Business

Our social housing originations are related to the retail debt financing programs through our Wohnbaubank subsidiary. As a result, Wohnbaubank and related origination activities are managed and reported within our retail segment.

CHANGE	OLD REPORTING	NEW REPORTING
Austrian corporate business (turnover of EUR 2.5 million to EUR 50 million)	Corporates	Retail Banking and Small Business

We have expanded our definition of small business, which is reported within the retail segment, from EUR 2.5 million to EUR 50 million to reflect the opportunities to deliver additional products and services to these clients from the retail business and also provide more regional and local coverage over time.

Customers with turnover of up to EUR 50 million per year which do not meet minimum risk-adjusted profitability for the Bank are managed through our portfolio management team and are reflected in the Corporate Lending segment.

CHANGE	OLD REPORTING	NEW REPORTING
Various financial assets	Corporate Center/ALM	Treasury Services and Markets (formerly referred to as "Financial Markets")

Certain financial assets, which are not part of our required liquidity positions, are managed within the Treasury Services and Markets teams. These include financial assets which: a) hedge the Bank's non interest bearing positions, b) reflect strategic interest rate positions, c) reflect surplus liquidity.

Since 2014, the bank levy is presented in the Corporate Center.

Since 1 January 2014, BAWAG P.S.K. has been managed in accordance with the following four main business and reporting segments, while the responsibilities for the operational decisions remain unchanged:

- **Retail Banking and Small Business** – includes savings, payment, card and lending activities for our private customers, investment and insurance services, small business lending and financial services including our social housing activities, as well as leasing solutions and products.
- **Corporate Lending and Investments** – includes our Austrian corporate lending activities and other fee-driven financial services as well as our international corporate and real estate investment activities.
- **Treasury Services and Markets** – includes the activities associated with providing trading and investment services for our Group treasury activities including certain asset liability management activities and the investment results of our portfolio of financial securities.
- **Corporate Center** – includes unallocated items related to Group support functions for the entire Bank and certain activities and results related to subsidiary and participation holdings as well as the results of our liquidity portfolio.

Our segments are aligned with our core business strategies as well as our objective of providing transparent reporting of our business unit and bank-wide results including minimizing financial impacts and activities within the Corporate Center.

The segments in detail

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Q1 2014	Q1 2013	**Q1 2014**	Q1 2013	**Q1 2014**	Q1 2013	**Q1 2014**	Q1 2013	**Q1 2014**	Q1 2013
Net interest income	94.9	79.6	44.6	47.2	13.2	12.8	0.3	(17.0)	**153.0**	**122.7**
Net fee and commission income	46.0	41.0	11.7	13.6	0.1	0.1	(2.7)	(2.8)	**55.1**	**51.9**
Core revenues	**140.9**	**120.7**	**56.3**	**60.8**	**13.3**	**12.9**	**(2.4)**	**(19.8)**	**208.1**	**174.6**
Gains and losses on financial instruments	0.3	0.5	0.4	5.7	0.2	8.8	17.4	50.1	**18.2**	**65.1**
Other operating income and expenses	0.7	0.1	0.0	0.0	0.0	0.0	8.6	1.1	**9.3**	**1.2**
Operating income	**141.9**	**121.2**	**56.7**	**66.5**	**13.5**	**21.8**	**23.6**	**31.4**	**235.6**	**240.9**
Core operating expenses	(91.0)	(103.7)	(20.1)	(23.3)	(5.5)	(9.9)	(10.4)	(7.6)	**(127.0)**	**(144.4)**
Restructuring expenses and other one-off items	–	–	–	–	–	–	0.0	(7.3)	**0.0**	**(7.3)**
Total operating expenses	**(91.0)**	**(103.7)**	**(20.1)**	**(23.3)**	**(5.5)**	**(9.9)**	**(10.4)**	**(14.9)**	**(127.0)**	**(151.7)**
Bank levy	–	–	–	–	–	–	(6.1)	(6.3)	**(6.1)**	**(6.3)**
Total risk costs	(9.1)	(9.1)	(12.0)	(20.0)	0.0	0.0	1.5	(1.1)	**(19.6)**	**(30.1)**
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	(0.6)	(0.4)	**(0.6)**	**(0.4)**
Profit before tax	**41.7**	**8.5**	**24.5**	**23.3**	**8.0**	**11.9**	**8.1**	**8.7**	**82.3**	**52.4**
Income taxes	–	–	–	–	–	–	(2.0)	(7.1)	**(2.0)**	**(7.1)**
Profit after tax	**41.7**	**8.5**	**24.5**	**23.3**	**8.0**	**11.9**	**6.1**	**1.6**	**80.3**	**45.3**
Non-controlling interests	–	–	–	–	–	–	0.3	0.2	**(0.3)**	**(0.2)**
Net profit	**41.7**	**8.5**	**24.5**	**23.3**	**8.0**	**11.9**	**5.8**	**1.4**	**80.0**	**45.1**
Assets	9,536	9,645	13,022	14,496	5,719	4,773	6,153	10,475	**34,431**	**39,390**
Risk-weighted assets	3,272	3,484	7,205	8,149	2,180	1,269	4,341	7,195	**16,998**	**20,097**

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

Other operating income and expenses are reconciled with the consolidated Profit or Loss Statement as follows:

in EUR million	**Q1 2014**	Q1 2013
Other operating income and expenses according to segment report	9.3	1.2
Bank levy	(6.1)	(6.3)
Other operating income and expenses according to consolidated profit or loss statement	**3.2**	**(5.1)**

16 | Capital management

The following table shows the breakdown of the Group's own funds and its own funds requirement as per 31 March 2014 pursuant to CRR applying UGB figures and as per 31 December 2013 pursuant to BWG:

in EUR million	Mar 2014	Dec 2013
Share capital, participation capital	**250**	**600**
Reserves after deduction of intangible assets and losses of subsidiaries	1,537	1,343
Less shareholdings held for investment purposes, IRB risk provision shortfalls	(18)	(45)
Minorities	235	404
Core Tier I	**2,004**	**2,302**
Hybrid capital [1]	23	142
Total Tier I	**2,027**	**2,444**
Supplementary and subordinated debt capital	608	582
Hybrid capital [1]	17	n/a
Excess IRB risk provisions [2]	46	n/a
Less shareholdings held for investment purposes, IRB risk provision shortfalls	(87)	(45)
Total Tier II	**584**	**537**
Tier III [3]	**n/a**	**10**
Own funds	**2,611**	**2,991**
Our own funds compared with the following own funds requirement:		
Credit risk	1,222	1,141
Market risk	8	10
Operational risk	129	129
Capital requirements	**1,360**	**1,280**

1) According to CRR, hybrid capital is partially eligible among Additional Tier I and Tier II.
2) According to BWG, eligible as Tier I under item IRB risk provision shortfalls.
3) According to CRR, Tier III capital is not included in own funds.

17 | 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 2014	Fair value Mar 2014	Carrying amount Dec 2013	Fair value Dec 2013
Assets				
Cash reserves	474	474	481	481
Financial assets designated at fair value through profit or loss	612	612	753	753
Available-for-sale financial assets				
Recognized at fair value	4,325	4,325	5,029	5,029
Recognized at cost	99	n/a	97	n/a
Held-to-maturity investments	1,711	1,734	773	774
Assets held for trading	1,143	1,143	1,081	1,081
Loans and receivables	25,245	25,396	27,256	27,394
Hedging derivatives	202	202	164	164
Tangible non-current assets	84	n/a	85	n/a
Thereof investment properties	3	7	4	8
Intangible non-current assets	148	n/a	142	n/a
Other assets	388	n/a	541	n/a
Total assets	**34,431**		**36,402**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,992	1,992	2,968	2,968
Liabilities held for trading	1,057	1,057	1,298	1,298
Financial liabilities designated at amortized cost	27,653	27,834	28,222	28,475
Valuation adjustment on interest rate risk hedged portfolios	51	51	(2)	(2)
Hedging derivatives	94	94	126	126
Provisions	474	n/a	504	n/a
Other obligations	606	n/a	506	n/a
Equity	2,209	n/a	2,394	n/a
Non-controlling interests	295	n/a	386	n/a
Total liabilities and equity	**34,431**		**36,402**	

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 here.

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 by 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;
- Other: This pertains to stakes in non-consolidated subsidiaries that are classified as available for sale.

in EUR million	Level 1 Mar 2014	Level 2 Mar 2014	Level 3 Mar 2014	Others [1)] Mar 2014	Total Mar 2014
Assets					
Financial assets designated at fair value through profit or loss	49	557	6	0	**612**
Available-for-sale financial assets	4,299	26	0	99	**4,424**
Assets held for trading	0	1,143	0	0	**1,143**
Hedging derivatives	0	202	0	0	**202**
Total fair value assets	**4,348**	**1,928**	**6**	**99**	**6,381**
Liabilities					
Financial liabilities designated at fair value through profit or loss	65	1,400	527	0	**1,992**
Liabilities held for trading	0	1,057	0	0	**1,057**
Valuation adjustment on interest rate risk hedged portfolios	0	51	0	0	**51**
Hedging derivatives	0	94	0	0	**94**
Total fair value liabilities	**65**	**2,602**	**527**	**0**	**3,194**

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

in EUR million	Level 1 Dec 2013	Level 2 Dec 2013	Level 3 Dec 2013	Others [1] Dec 2013	Total Dec 2013
Assets					
Financial assets designated at fair value through profit or loss	75	671	7	0	**753**
Available-for-sale financial assets	5,026	3	0	97	**5,126**
Assets held for trading	0	1,081	0	0	**1,081**
Hedging derivatives	0	164	0	0	**164**
Total fair value assets	**5,101**	**1,919**	**7**	**97**	**7,124**
Liabilities					
Financial liabilities designated at fair value through profit or loss	51	2,377	540	0	**2,968**
Liabilities held for trading	0	1,298	0	0	**1,298**
Valuation adjustment on interest rate risk hedged portfolios	0	(2)	0	0	**(2)**
Hedging derivatives	0	126	0	0	**126**
Total fair value liabilities	**51**	**3,799**	**540**	**0**	**4,390**

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

Financial liabilities designated at fair value through profit or loss of Level 3 comprise only own issues of BAWAG P.S.K. Wohnbaubank.

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

The changes in financial instruments in the Level 3 category were as follows:

in EUR million	Financial assets	Financial liabilities
Opening balance as of 01.01.2014	**7**	**540**
Redemptions/sales	(1)	(13)
Closing balance as of 31.03.2014	**6**	**527**

in EUR million	Financial assets	Financial liabilities
Opening balance as of 01.01.2013	**100**	**621**
Valuation gains (losses) in profit or loss		
for assets held at the end of the period	2	(2)
Purchases	7	0
Redemptions/sales	(101)	(79)
Foreign exchange differences	(1)	0
Closing balance as of 31.12.2013	**7**	**540**

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

Movements in Level 3 financial instruments measured at fair value

Holdings in the amount of EUR 1 million that were reported as Level 3 financial assets on 31 December 2013 were disposed of in the first quarter of 2014. In the first quarter of 2014, the financial liabilities reported under Level 3 were repurchased in the amount of EUR 13 million.

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 spread premium is currently 65 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; in detail on the credit rating development of the housing banks, whereby spread increases have positive effects.

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 6 million as of 31 March 2014. If the credit spread used in calculating the fair value of own issues is increased by 20 basis points, the accumulated valuation result as of 31 March 2014 would have increased by EUR 5 million (31 December 2013: EUR 5 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 31 March 2014 would have decreased by EUR (2) million (31 December 2013: EUR (2) million).

RISK REPORT

Introduction and Overview

Risk Management and the corresponding committees of BAWAG P.S.K. identify, measure, monitor and manage all risks to which the Bank is exposed. At all organizational levels of the Bank, Market and Risk are strictly separated.

On the basis of a regular risk inventory, stringent monitoring and controlling is ensured for the following risk types as well as others:

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

This risk report provides information on the Group's positioning with regard to credit risk and liquidity risk.

Current regulatory topics

Basel 3 requirements
The Basel Committee for Banking Supervision has issued international standards under the name "Basel 3" that impose strict capital and liquidity rules aimed at increasing the resiliency of the banking sector. The EU directive built on these standards was transposed into Austrian law in the middle of 2013. The new rules including the EU regulation came into effect on 1 January 2014 and are completely fulfilled by BAWAG P.S.K.

Specific Risks of BAWAG P.S.K. Group

18 | Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. Credit risk arises at the point in time a transaction is concluded and continues until full repayment. For risk management purposes, BAWAG P.S.K. considers and consolidates all elements of credit risk exposures, such as individual obligor or obligor group default risk, country risk and business segment risk.

The divisions that are responsible for credit risk are set up in a way to include a functional risk management specialization for the commercial and institutional customer segment and the retail and SME segment. The division of Strategic Risk is responsible for a uniform aggregation of the individual risk indicators and periodic reporting.

Portfolio Development in the first quarter of 2014

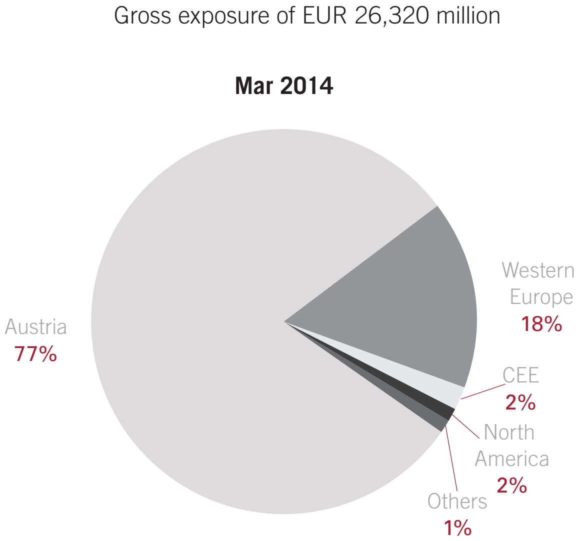
During the first quarter, the portfolio optimization continued, with a focus on risk-adjusted returns and proactively exiting non-core assets.

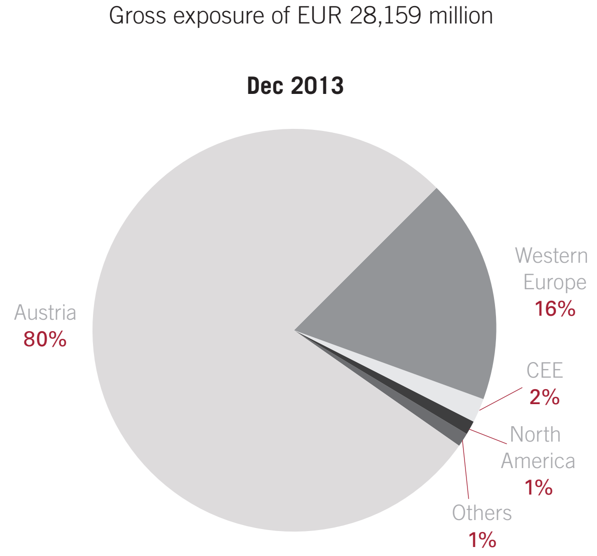
Credit risk by customer segment, in EUR million

Segment	Book value loans[1)]		Bonds		Off-balance business		Collateral		Gross exposure[2)]	
	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013
Banks	950	2,056	3,976	3,534	1,238	904	639	575	6,164	6,494
Public sector	5,501	6,533	1,108	905	435	390	582	624	7,044	7,828
Corporates	9,398	9,550	3,754	4,153	1,557	1,623	5,250	5,510	14,709	15,326
Small business	992	1,017	10	10	71	76	711	723	1,073	1,103
Retail private customers	6,185	6,012	0	0	214	189	3,909	3,806	6,399	6,201
Total	**23,026**	**25,168**	**8,848**	**8,602**	**3,515**	**3,182**	**11,091**	**11,238**	**35,389**	**36,952**

1) Including Loans and Receivables - customers and credit institutions and loans measured at fair value.
2) Gross exposure includes book values and off-balance-sheet items like guarantees and committed but currently unutilized limits, excluding loan loss provisions.

Geographical distribution of the loan portfolio, in EUR million

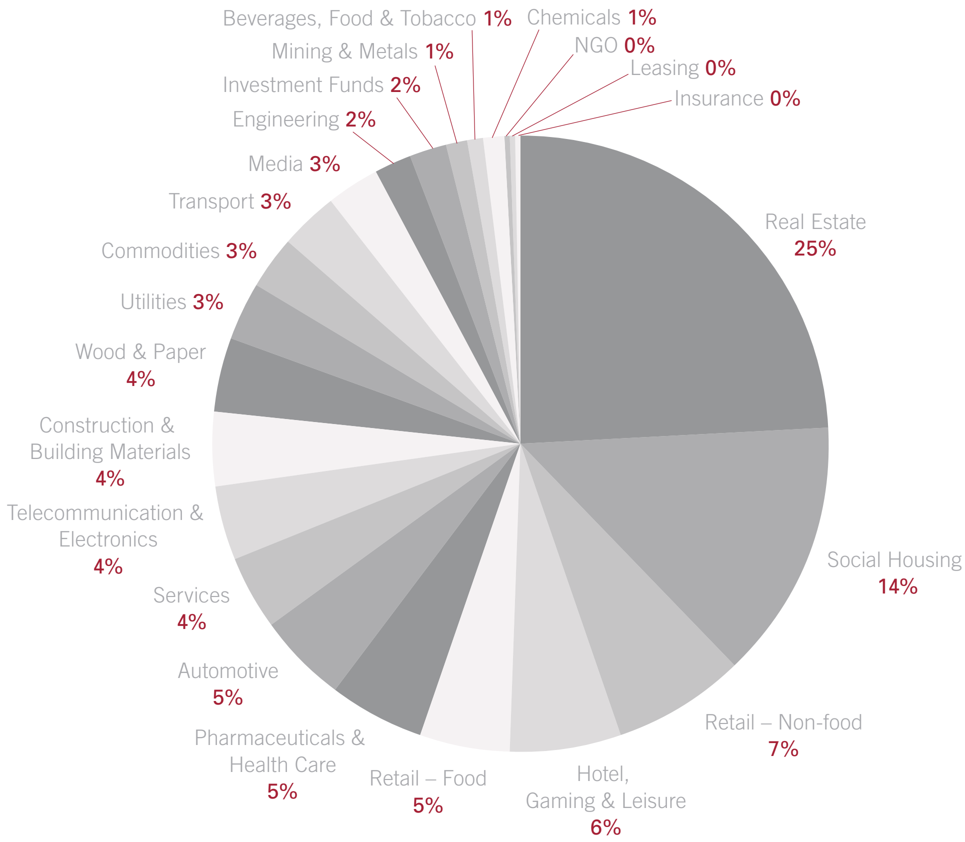




The overview shows the gross exposure of loans to all corporate and retail customers as well as banks and the public sector without bonds and their off-balance portion in each region, assigned to the actual country of risk.

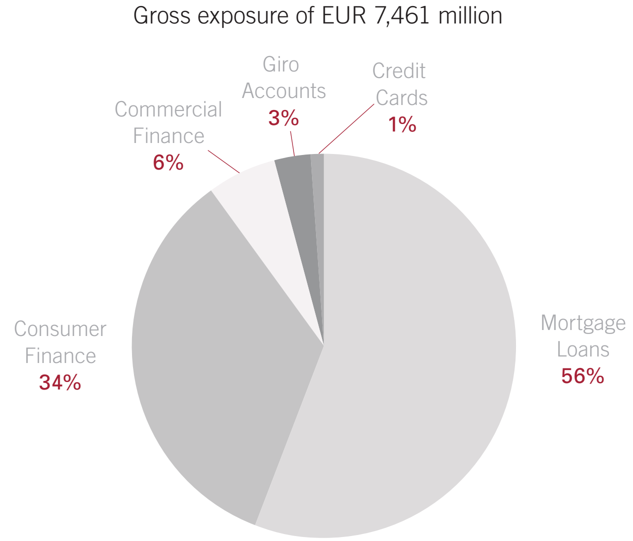
Corporate portfolio by sector (gross exposure without bonds and their off-balance portion)

Gross exposure of EUR 10,661 million



The BAWAG P.S.K. Group has a well diversified portfolio with real estate and social housing as the largest sectors.

Retail portfolio by product (gross exposure without bonds and their off-balance portion)



The retail portfolio is primarily made up of mortgage loans and consumer finance.

Non-performing loans (NPLs)

Exposures relating to all customers in default risk class 8 (contains all customers that are classified as in default according to the Basel II definition) are categorized as non-performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account or not. As soon as the material exposure (EUR 250 and 2.5% of the total of all facilities extended to the customer) of a customer is over 90 days past due, a Loan loss provisions made or a customer-specific default criterion applies, the customer is considered to be in default with all of its exposure-related products and is assigned to risk class 8.

in EUR million 1)	Book value loan book before provisions		Provisions		Collateral		Net position		Coverage ratio 2)		NPL ratio 3)	
	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013	Mar 2014	Dec 2013
Banks	6	7	5	5	0	0	1	2	87.1%	71.4%	0.6%	0.5%
Corporates and other customers 4)	605	587	166	156	75	71	364	360	39.9%	38.7%	3.6%	3.3%
Retail	315	336	162	165	120	119	33	52	89.6%	84.5%	4.2%	4.3%
IBNR portfolio provision	–	–	32	33	–	–	(32)	(33)	–	–	–	–
Total	**926**	**930**	**366**	**359**	**194**	**190**	**365**	**381**	**57.1%**	**55.5%**	**3.6%**	**3.4%**

1) Segmentation according to Basel II definition.
2) (Provisions excl. IBNR portfolio provision + Collateral)/Exposure.
3) Total NPLs / Loans and receivables including provisions.
4) Includes a material impact from the exposure to a single customer.

Impaired Loans

Loan loss provisions are formed for loans for which it can be assumed that the balance outstanding may not be entirely redeemed. The main components are described below.

- Specific loss provisions that are formed after detailed analysis based on the estimates of the Credit Risk unit and under responsibility of the Workout Group, which is also responsible for legal collection, and
- Loan loss provisions that are formed automatically by the core banking system in the case of unpaid installments.
- Portfolio provisions according to IAS 39 AG 89 for losses in the Group credit portfolio that were incurred but not yet reported on the reporting date (IBNR: "incurred but not reported"). For this portfolio-based provision, it is assumed that losses have been incurred but not yet reported for a certain percentage of accounts not recognized as defaulted on the reporting date.

The volume reported as NPL includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed[1].

Particular Risk Concentrations in the Credit Portfolio

With regards to risk concentrations, credit risk concentrations are the only material form of concentration. Risk concentrations arise on the one hand from large exposures in individual customer segments or on the other hand from large total exposures in certain industries, countries or foreign currencies and whose potential loss could endanger the core business at the Bank or lastingly impact its risk profile. All categories are managed in BAWAG P.S.K. Group based on clear regulations and processes.

1) The IBNR portfolio provision does not directly lead to classification as "in default." On the other hand, the two further impairment provision types described in the Impaired Loans section lead to the immediate default of the customer; all exposure-bearing products of a customer that is classified as being in default are then carried as non-performing loans.

19 | 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 Bank's earnings situation (structural liquidity risk). Liquidity risk also 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 Manual for Liquidity Risks specifies how liquidity risks are to be handled and includes a contingency liquidity plan.

Short-Term Operational Liquidity Management is performed by the Treasury Services and Markets division based on a daily updated 30 days rolling forecast, allowing for the close tracking and management of the Bank's intra-month liquidity position. All measures are closely aligned with Controlling & Asset Liability Management, which is responsible for planning and managing the structural liquidity risk and funding position with a medium- to long-term view.

Asset Liability Management also ensures that the Bank holds a sufficiently diversified portfolio of high-quality liquid assets and that the liquidity buffer is adequate for the Bank's anticipated needs as well as meeting all regulatory requirements.

The first quarter of 2014 was characterized by a solid liquidity position reflected by stable core funding sources and a balanced term funding structure. The Bank's strong liquidity position was used to cover maturing own issues and therefore further reduce its dependency on wholesale market funding. Also, in 2014 the Bank is in a position to refinance its current portfolio of assets on the capital markets without additional funding measures.

Vienna, 13 May 2014

Byron Haynes m.p.
CEO and Chairman of the Managing Board

Wolfgang Klein m.p.
Deputy Chairman of the Managing Board

Anas Abuzaakouk m.p.
Member of the Managing Board

Jochen Klöpper m.p.
Member of the Managing Board

Corey Pinkston m.p.
Member of the Managing Board

STATEMENT OF ALL LEGAL REPRESENTATIVES

"We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first three months of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining nine months of the financial year."

Vienna, 13 May 2014

Byron Haynes m.p.
CEO and Chairman of the Managing Board

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Deputy Chairman of the Managing Board

Anas Abuzaakouk m.p.
Member of the Managing Board

Jochen Klöpper m.p.
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