BAWAG PSK

CONSOLIDATED INTERIM REPORT

H1 2015

KEY FIGURES

Profit or loss statement (in EUR million)	Q2 2015	Q2 2014	Change (%)	Jan–Jun 2015	Jan–Jun 2014	Change (%)
Net interest income	183.8	168.8	8.9	363.2	318.0	14.2
Net fee and commission income	51.4	51.9	(1.0)	101.9	107.1	(4.9)
Core revenues	**235.2**	**220.7**	**6.6**	**465.1**	**425.1**	**9.4**
Gains and losses on financial instruments and other operating income and expenses	(6.3)	23.3	–	25.3	50.7	(50.1)
Operating income	**228.9**	**244.0**	**(6.2)**	**490.4**	**475.8**	**3.1**
Operating expenses	**(106.3)**	**(119.8)**	**(11.3)**	**(224.8)**	**(243.2)**	**(7.6)**
Bank levy	(5.7)	(6.2)	(8.1)	(11.5)	(12.3)	(6.5)
Total risk costs	(11.9)	(17.9)	(33.5)	(22.9)	(37.5)	(38.9)
Profit before tax	105.5	99.8	5.7	233.0	181.9	28.1
Net profit	**105.4**	**95.1**	**10.8**	**226.1**	**175.0**	**29.2**

Performance ratios (figures annualized)	Q2 2015	Q2 2014	Change (pts)	Jan–Jun 2015	Jan–Jun 2014	Change (pts)
Return on equity	**16.5%**	**17.0%**	**(0.5)**	**18.1%**	**16.2%**	**1.9**
Return on tangible equity	**17.2%**	**18.2%**	**(1.0)**	**18.9%**	**17.4%**	**1.5**
Return on risk-weighted assets	2.63%	2.25%	0.38	2.78%	2.14%	0.64
Return on total assets	1.23%	1.10%	0.13	1.32%	0.99%	0.33
Net interest margin	2.15%	1.96%	0.19	2.12%	1.79%	0.33
Business net interest margin	2.40%	2.25%	0.15	2.37%	2.20%	0.17
Cost-income ratio	46.4%	49.1%	(2.7)	45.8%	51.1%	(5.3)
Risk costs / loans and receivables	0.18%	0.28%	(0.10)	0.18%	0.28%	(0.10)

Statement of financial position (in EUR million)	Jun 2015	Dec 2014	Change (%)	Jun 2014	Change (%)
Total assets	33,797	34,651	(2.5)	34,527	(2.1)
Financial assets	6,620	7,488	(11.6)	7,759	(14.7)
Customer loans and receivables	21,918	21,779	0.6	21,337	2.7
Customer deposits	20,843	21,135	(1.4)	21,174	(1.6)
Own issues	5,712	6,113	(6.6)	6,604	(13.5)
IFRS equity	2,595	2,405	7.9	2,276	14.0
IFRS tangible equity	2,492	2,302	8.3	2,123	17.4
Risk-weighted assets	15,766	16,792	(6.1)	16,769	(6.0)

Balance sheet ratios	Jun 2015	Dec 2014	Change (pts)	Jun 2014	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**14.2%**	**12.1%**	**2.1**	**11.2%**	**3.0**
Total capital ratio (fully loaded)	17.3%	15.8%	1.5	15.1%	2.2
Leverage ratio (fully loaded)	6.1%	5.5%	0.6	5.1%	1.0
Liquidity coverage ratio (LCR)	165%	134%	31	80%	85
NPL ratio	2.3%	2.8%	(0.5)	3.4%	(1.1)

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on page 22.

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BAWAG P.S.K.'s interim results are typically not indicative of expected full year results. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

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The tables in this report may contain rounding differences.

Due to a change in methodology relating to the calculation of averages, certain key ratios for H1 2014 may differ from the originally published figures.

LETTER FROM THE CEO

Dear Stakeholders,

During the first half 2015, BAWAG P.S.K. continued to make strides in its goal of being one of the most profitable, efficient and best capitalized banks in Europe. We again delivered record results with a net profit of EUR 226 million, up 29% compared to the first half 2014. Core revenues were up 9% and operating expenses down 8%, resulting in a cost-income ratio of 46%. With a return on equity of 18%, BAWAG P.S.K. ranks amongst the most profitable banks in Europe.

The increase in profitability was driven by our continuous growth in core revenues over the last six quarters, our focus on key lending products, maintaining our disciplined pricing approach and running an efficient balance sheet.

At the same time, we maintained a conservative risk profile with disciplined risk-adjusted underwriting and focusing our business on stable and economically sound economies. This is best reflected in a risk cost ratio of only 18 basis points (down 10 basis points) and a further decrease of our NPL ratio to 2.3% (down 1.1 points).

In addition, we further strengthened our capital position, improving our fully loaded CET1 and total capital ratios to 14.2% and 17.3%, respectively, as of 30 June 2015.

In early July, the transformation over the past few years was also validated by Moody's Investors Service. BAWAG P.S.K.'s long-term deposit, senior unsecured and issuer ratings were all raised by one notch to Baa1 and the outlook was changed to "positive." In addition, Moody's upgraded the Bank's stand-alone rating to baa3 (investment grade for the first time) and indicated further upside potential over a 12- to 18-month outlook horizon.

Our investments in our retail franchise continued to pay off in the first half. We grew our market share in consumer lending to 9.7%, up 70 basis points from year-end and representing a net asset increase of 7%. Across our funds business, gross sales were EUR 730 million, up 15% compared to the first half 2014, demonstrating strong momentum from the partnership we recently entered into with the world-class asset manager Amundi.

Following our stated strategy of focusing on our core businesses and simplifying our organizational structure, we continued to sell participations we consider non-core. We sold our 50% stake in BAWAG Allianz Vorsorgekasse to Allianz Österreich in July and entered into an agreement to dispose of our non-core subsidiary BAWAG Malta Bank.

At the same time, we have continued to make progress in growing our core businesses. We continued to build out our direct banking franchise through the integration of the BAWAG P.S.K. leasing business into *easybank*. BAWAG P.S.K.'s auto leasing product will complement *easybank*'s suite of products and provides for significant growth opportunities through the *easybank* channel. The strategic partnership we entered into last year with Shell gas stations and the integration of the BAWAG P.S.K. auto leasing business provides *easybank* with yet another platform to expand its market presence, brand awareness and best-in-class service offering.

Overall, the leadership team and I are very proud of our accomplishments during the first half of the year, positioning BAWAG P.S.K. among the best-performing banks in Europe. The consistency in our results over the last quarters is a testament to BAWAG P.S.K.'s strength today and we are confident that this strong performance will continue for the remainder of the year as we are well on track to outperform our 2015 targets.

This success was only possible thanks to the dedication of all of our employees working together as one team and providing our customers with simple, transparent and best-in-class products. I also want to thank our customers and shareholders for their continuous support over the past months and years.

Byron Haynes
CEO and Chairman of the Managing Board

Interim Group Management Report

FINANCIAL REVIEW

BAWAG P.S.K. continued to successfully execute on its business plans in the first half 2015 and delivered another quarter of strong results.

A few **key highlights** include:

- BAWAG P.S.K. posted a net profit of EUR 226.1 million in the first half 2015. This represents an increase of 29.2% compared to the same period in 2014. The increase was driven by improvements in Corporate Lending and Investments as well as Retail Banking and Small Business.
- The annualized return on equity was 18.1%, up 1.9 points versus the first half 2014 and well ahead of our 2015 target of >14%.
- Net interest income rose 14.2% in the first half 2015 versus the same period in 2014, despite a continued low-interest rate environment.
- The net interest margin improved by 33 basis points to 2.12%, while the business net interest margin increased 17 basis points to 2.37%, reflecting the Bank's dedicated focus on asset and liability pricing.
- Our emphasis on cost efficiency continues to pay off. Operating expenses fell to EUR 224.8 million from EUR 243.2 million in the first half 2014, and the cost-income ratio improved by 5.3 points to 45.8%.
- Total risk costs decreased by 38.9% to EUR 22.9 million in the first half 2015, resulting from the improved overall credit quality of the core businesses.
- Our capital base has been further strengthened from an already high level, with a Common Equity Tier 1 capital ratio and total capital ratio (both fully loaded) of 14.2% and 17.3%, respectively, at 30 June 2015, versus 12.1% and 15.8% at year-end 2014.

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in EUR million	**Q2 2015**	Q2 2014	Change (%)	**Jan–Jun 2015**	Jan–Jun 2014	Change (%)
Interest income	259.5	272.9	(4.9)	532.7	539.9	(1.3)
Interest expense[1]	(82.5)	(108.5)	(24.0)	(178.9)	(226.3)	(20.9)
Dividend income	6.8	4.4	54.5	9.4	4.4	>100
Net interest income	**183.8**	**168.8**	**8.9**	**363.2**	**318.0**	**14.2**
Fee and commission income	74.7	76.6	(2.5)	149.6	158.8	(5.8)
Fee and commission expenses	(23.3)	(24.7)	(5.7)	(47.7)	(51.7)	(7.7)
Net fee and commission income	**51.4**	**51.9**	**(1.0)**	**101.9**	**107.1**	**(4.9)**
Core revenues	**235.2**	**220.7**	**6.6**	**465.1**	**425.1**	**9.4**
Gains and losses on financial instruments and other operating income and expenses[2]	(6.3)	23.3	–	25.3	50.7	(50.1)
Operating income	**228.9**	**244.0**	**(6.2)**	**490.4**	**475.8**	**3.1**
Operating expenses[1]	**(106.3)**	**(119.8)**	**(11.3)**	**(224.8)**	**(243.2)**	**(7.6)**
Bank levy	(5.7)	(6.2)	(8.1)	(11.5)	(12.3)	(6.5)
Operating profit	**116.9**	**118.0**	**(0.9)**	**254.1**	**220.3**	**15.3**
Provisions and loan-loss provisions	(11.9)	(17.9)	(33.5)	(22.9)	(37.5)	(38.9)
Impairment losses	0.0	0.0	–	0.0	0.0	–
Share of the profit or loss of associates accounted for using the equity method	0.5	(0.3)	–	1.8	(0.9)	–
Profit before tax	**105.5**	**99.8**	**5.7**	**233.0**	**181.9**	**28.1**
Income taxes	(0.1)	(4.4)	(97.7)	(6.9)	(6.3)	9.5
Profit after tax	**105.4**	**95.4**	**10.5**	**226.1**	**175.6**	**28.8**
Non-controlling interests	0.0	0.3	(100)	0.0	0.6	(100)
Net profit	**105.4**	**95.1**	**10.8**	**226.1**	**175.0**	**29.2**

1) Prior-year figures were adjusted. For further details, please refer to the Notes under "Change in presentation of interest expense within IAS 19 – employee benefits."
2) In accordance with IFRS, the item Other operating income and expenses also includes the bank levy in the amount of EUR 11.5 million for the first half 2015. However, the Bank's management considers the bank levy as a separate expense. Accordingly, it is shown in a separate expense line in the Interim Group Management Report.

Net profit increased by EUR 51.1 million, or 29.2%, to EUR 226.1 million in the first half 2015. The increase was driven by higher net interest income, reduced operating expenses and lower risk costs.

Net interest income increased by EUR 45.2 million, or 14.2%, to EUR 363.2 million in the first half 2015, driven primarily by lower interest expense and stable interest income.

Compared to the first half of the prior year, the Bank's **net interest margin** improved 33 basis points to 2.12%, while the **business net interest margin** increased 17 basis points to 2.37%.

Net fee and commission income slightly decreased by EUR 5.2 million, or 4.9%, to EUR 101.9 million in the first half 2015. This was primarily due to higher one-offs during the first half 2014 while the ongoing business produced stable income.

Gains and losses on financial instruments and other operating income and expenses decreased by EUR 25.4 million, or 50.1%, to EUR 25.3 million in the first half 2015.

Operating expenses decreased by EUR 18.4 million, or 7.6% to EUR 224.8 million in the first half 2015, driven by a reduction in personnel expenses and other administrative expenses.

The **cost-income ratio** improved by 5.3 points to 45.8% compared to the first half 2014.

Provisions and loan-loss provisions decreased by EUR 14.6 million, or 38.9%, to EUR 22.9 million in the first half 2015. This was mainly driven by positive de-risking actions in prior years. **No impairment losses** occurred in the first half 2015.

Total assets

in EUR million	Jun 2015	Dec 2014	Change (%)	Jun 2014	Change (%)
Cash reserves	446	684	(34.8)	783	(43.0)
Financial assets	6,620	7,488	(11.6)	7,759	(14.7)
Available-for-sale	3,080	3,833	(19.6)	4,192	(26.5)
Held-to-maturity	2,210	2,042	8.2	1,841	20.0
Held for trading	1,022	1,163	(12.1)	1,115	(8.3)
Fair value through profit or loss	308	450	(31.6)	611	(49.6)
Loans and receivables	25,523	25,280	1.0	24,975	2.2
Customers	21,918	21,779	0.6	21,337	2.7
Debt instruments	1,372	1,983	(30.8)	2,104	(34.8)
Credit institutions	2,233	1,518	47.1	1,534	45.6
Hedging derivatives	445	546	(18.5)	402	10.7
Tangible non-current assets	75	84	(10.7)	81	(7.4)
Intangible non-current assets	102	103	(1.0)	153	(33.3)
Tax assets for current taxes	7	7	–	6	16.7
Tax assets for deferred taxes	255	243	4.9	244	4.5
Other assets	151	148	2.0	124	21.8
Assets held for sale	173	68	>100	–	100
Total assets	**33,797**	**34,651**	**(2.5)**	**34,527**	**(2.1)**

Financial assets decreased by EUR 868 million, or 11.6%, to EUR 6,620 million as of 30 June 2015, mainly due to the sale of bonds classified as available-for-sale. **Loans and receivables with customers** increased by EUR 139 million, or 0.6%, to EUR 21,918 million as of 30 June 2015, primarily driven by growth in the Retail Banking and Small Business segment.

As of 30 June 2015, the line items **Assets held for sale** and **Obligations in disposal groups held for sale** include the carrying amounts of assets and liabilities of BAWAG Malta Bank Limited. As of 31 December 2014, these items included the carrying amounts of assets and liabilities of BAWAG P.S.K. INVEST GmbH, which was sold in February 2015.

Total liabilities and equity

in EUR million	Jun 2015	Dec 2014	Change (%)	Jun 2014	Change (%)
Total liabilities	**31,202**	**32,246**	**(3.2)**	**32,252**	**(3.3)**
Financial liabilities	29,994	30,842	(2.7)	30,883	(2.9)
Fair value through profit or loss	1,609	1,675	(3.9)	2,026	(20.6)
Issued securities	1,609	1,675	(3.9)	2,026	(20.6)
Held for trading	1,393	1,174	18.7	1,045	33.3
At amortized cost	26,992	27,993	(3.6)	27,812	(2.9)
Customers	20,843	21,135	(1.4)	21,174	(1.6)
Issued securities	4,103	4,438	(7.5)	4,578	(10.4)
Credit institutions	2,046	2,420	(15.5)	1,839	11.3
Valuation adjustment on interest rate risk hedged portfolios	119	196	(39.3)	115	3.5
Hedging derivatives	132	160	(17.5)	132	–
Provisions	443	522	(15.1)	495	(10.5)
Tax liabilities for current taxes	0	0	–	0	–
Tax liabilities for deferred taxes	2	3	(33.3)	9	(77.8)
Other obligations	511	517	(1.2)	618	(17.3)
Obligations in disposal groups held for sale	1	6	(83.3)	–	100
Total equity	**2,595**	**2,405**	**7.9**	**2,276**	**14.0**
Shareholders' equity	2,595	2,405	7.9	2,276	14.0
Total liabilities and equity	**33,797**	**34,651**	**(2.5)**	**34,527**	**(2.1)**

Deposits from customers decreased by EUR 292 million, or 1.4%, to EUR 20,843 million as of 30 June 2015. The lower balance results from the proactively managed outflow of non-strategic fixed-term deposits and the effects of seasonal movements in current account balances.

Issued securities at amortized cost decreased by EUR 335 million, or 7.5%, to EUR 4,103 million as of 30 June 2015 due to the redemption of own issues.

Financial liabilities held for trading increased by EUR 219 million, or 18.7%, to EUR 1,393 million as of 30 June 2015, primarily resulting from fair value measurements due to foreign exchange movements and negative pull-to-par effects.

IFRS equity increased by EUR 190 million, or 7.9%, to EUR 2,595 million as of 30 June 2015. The change was driven by the interim net profit for the first half, partially offset by the negative impact from other comprehensive income due to a decrease of the available-for-sale reserve.

CAPITAL AND LIQUIDITY POSITION

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. After having already eliminated most of the non-sustainable capital instruments in 2014 (e.g. by fully redeeming the remaining EUR 350 million of participation capital), the final clean-up was completed by repaying the last non-sustainable Tier 1 capital of EUR 83 million in June 2015. The Bank's fully loaded capital ratios further improved since 31 December 2014 from 12.1% to 14.2% (CET1 capital ratio) and from 15.8% to 17.3% (total capital ratio) as of 30 June 2015.

Our funding strategy continues to be based on our stable customer deposits. We maintain a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 165% at the end of the first half 2015.

KEY PERFORMANCE INDICATORS

in EUR million	**Q2 2015**	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest income	183.8	179.4	183.1	175.9	168.8
Net fee and commission income	51.4	50.5	43.9	46.8	51.9
Core revenues	235.2	229.9	227.0	222.7	220.7
Operating income	228.9	261.4	215.8	233.4	244.0
Operating expenses	(106.3)	(118.4)	(120.4)	(120.8)	(119.8)
Total risk costs	(11.9)	(11.0)	(22.2)	(14.7)	(17.9)
Net profit	105.4	120.7	69.6	88.5	95.1
(figures annualized)					
Return on equity	16.5%	19.6%	11.7%	15.3%	17.0%
Return on tangible equity	17.2%	20.5%	12.2%	16.1%	18.2%
Return on risk-weighted assets	2.63%	2.92%	1.64%	2.09%	2.25%
Return on total assets	1.23%	1.39%	0.80%	1.02%	1.10%
Net interest margin	2.15%	2.07%	2.11%	2.03%	1.96%
Business net interest margin	2.40%	2.33%	2.36%	2.30%	2.25%
Cost-income ratio	46.4%	45.3%	55.8%	51.8%	49.1%
Risk costs / loans and receivables	0.18%	0.17%	0.35%	0.23%	0.28%

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 22.

BUSINESS SEGMENTS

RETAIL BANKING AND SMALL BUSINESS

Strategy

Our Retail Banking and Small Business segment services 1.6 million private and small business clients through our branch network with 485 branches that we jointly operate with Austrian Post, our online and mobile sales channels supported by our outbound customer care center and our direct bank *easybank*.

We are the leading multi-channel retail bank in Austria offering simple, fair and transparent products and services through various physical and digital sales channels building upon a strong and well recognized national brand. In the second quarter we further invested in our multi-channel approach through the development of our online and mobile offering. An example is the launch of advanced IBAN and payment slip scanning functions in our mobile app. These functions allow for easier handling of payment transactions and have been received very well by our customers.

First Half 2015 Business Review

Our strong results in the Retail Banking and Small Business segment reflect the success of the continued focus on our main value drivers:

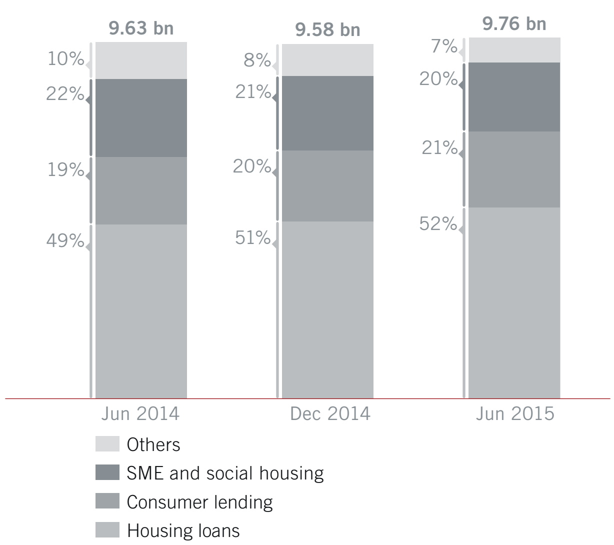
- Further expansion of our consumer loan franchise
- Stable funding from customer deposits with an optimized liability structure
- Driving sales productivity and enhancing the overall customer experience in our branch network
- Shift-to-digital by continuously enhancing our digital product and service offerings

Further expansion of our consumer loan franchise

During the first half 2015, we continued to grow our consumer loan franchise in absolute terms while also capturing market share. At the end of June, our consumer loan market share was 9.7%, up 70 basis points since year-end 2014 and 100 basis points since June 2014. New business loan originations during the first half 2015 were EUR 244 million, with net asset growth of 7.1%. These results were delivered while continuing to hold margins stable and maintaining our disciplined underwriting standards. Our instant credit decision at the point of sale, automated workflow and the quality of our advisory and sales processes differentiate us from our competitors.

In addition to the continued growth in consumer loans, we made progress in the migration of our customers towards digital channels. More than 10% of our consumer loan sales are already initiated through our digital channels, where we continued to expand our product and service offering. For instance, during the second quarter 2015 we started to cross-sell insurance solutions with our online consumer loan and implemented an online process for the identity verification of new clients.

Retail Asset Volume Development

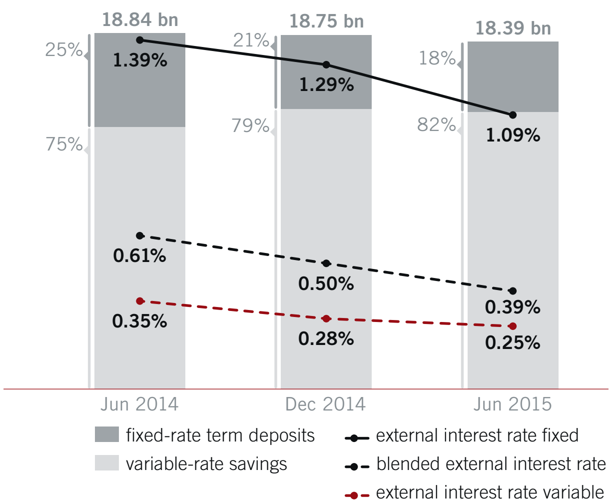


Retail assets stood at EUR 9.76 billion at the end of the first half 2015, up 2% compared to December 2014. This growth reflects the continued increase in our housing and consumer loan portfolio, which already accounts for 73% of our retail assets compared to 68% a year ago.

Stable funding from customer deposits with optimized liability structure

The cost optimization of our deposit base is driven by continued repricing of our deposits and an ongoing shift from fixed-rate term deposits to variable-rate savings cards and current accounts, thus providing lower funding costs, freeing up sales force capacity and providing our customers with a product with greater functionality.

Retail Customer Deposit Volume Development



Overall, the blended external interest rate on retail deposits stood at 0.39% at the end of the first half 2015, down 11 basis points since the beginning of the year. Our customer deposits decreased by EUR 450 million to EUR 18.39 billion in June 2015 as we actively managed the outflow of fixed-rate non-core products and further focused on variable-rate savings cards which are linked to our current accounts and represent the basis for our long-term client relationship. The continuous growth in our savings cards is also supported by an increasing online demand, with 8% of our new savings cards sold online.

easybank

easybank, a 100% subsidiary of BAWAG P.S.K., is Austria's first direct bank offering a full product portfolio, ranging from current accounts and savings products to credit cards, consumer and housing loans, security products and investment funds.

easybank's client base grew to 533,000 accounts through the first half 2015, up 5.1% since year-end 2014 and up 10.4% compared to June 2014. *easybank* increased its deposit volume to EUR 3.1 billion as of June 2015, up EUR 0.2 billion, or 6.9%, from year-end 2014.

Customer satisfaction is a cornerstone of *easybank*'s strategy and was confirmed by numerous awards. For the fifth time in a row, *easybank* was awarded the Recommender Award of "Finanz-Marketing Verband Österreich" for Austrian direct, special and private banks. In this survey, *easybank* achieved the highest score and was rewarded for excellent customer satisfaction. In addition, *easybank* received an award as the best direct bank from the Austrian Association for Consumer Research (ÖGVS) for the second time.

During the second quarter BAWAG P.S.K. auto leasing was integrated into *easybank*. This integration complements *easybank*'s suite of products and provides for significant growth opportunities through the *easybank* channel. The strategic partnership with Shell gas stations entered into last year and the integration of the BAWAG P.S.K. leasing business provides *easybank* with another platform to expand its market presence, brand awareness and best-in-class service offering.

Driving sales productivity and enhancing the overall customer experience in our branch network

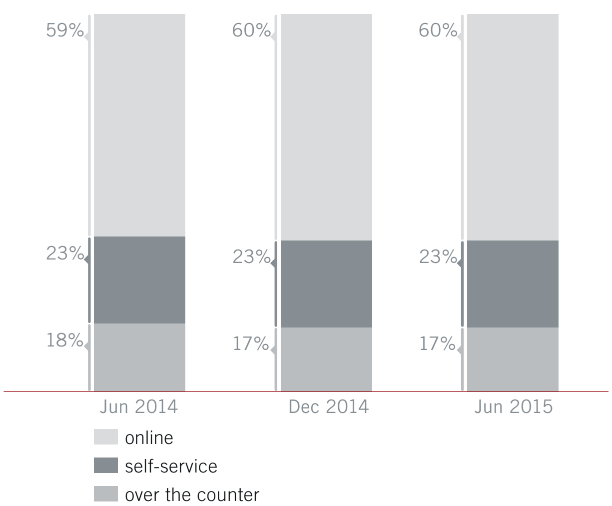
Our strong sales performance is a result of the continued enhancements of our sales and service processes across our branch network. The following key initiatives supported sales productivity in the first half 2015:

- Roll-out of new sales and service functionalities in our front-end tool "GATE"
- New service and support concept for fund products rolled out jointly with Amundi
- Ongoing shift of payment transactions from counters to digital channels

An example of the effectiveness of our sales and service functionalities is within the current account offering, where we introduced a simplified overdraft process for new clients which results in a faster and more convenient process. The success of our initiatives resulted in an increase in current account ("KontoBox") sales of greater than 35%. Above all, BAWAG P.S.K. received an award for offering the most attractive current account products among major Austrian banks from the Austrian Association for Consumer Research (ÖGVS).

Our branch advisors continued to place strong emphasis on investment and fund products. This resulted in fund sales of EUR 730 million during the first half 2015, up 15% compared to the same period last year. The launch of the inaugural Amundi global bond aggregate product has been well received by our customers and was complemented with an effective service and support concept for selling Amundi investment products.

Payment Transactions per Channel



The stronger focus of our branch employees on advisory and sales is supported by the ongoing shift of basic transactions to digital and self-service channels. The share of payment transactions over the counter decreased to 17% in June 2015 compared to June 2014, reflecting the changing composition of overall payments and the migration to digital.

Shift-to-digital by continuously enhancing our digital product and service offerings

During the first half 2015, we continued the development and launch of new digital services. We added advanced IBAN and payment slip scanning functions to our mobile app. These functions allow for easier handling of payment transactions and have been well received by our customers. Approximately 25% of all mobile payment transactions use these functions since the launch of the upgraded mobile app. Additionally, we have begun to cross-sell insurance solutions with our online consumer loan and implemented an online process for the identity verification of new clients.

All of our digital initiatives aim at increasing the convenience for our customers by enabling them to access the entire range of products and services whenever and wherever they want. The number of online and mobile logins during the first half 2015 increased by 10.3% to 43.4 million compared to the first half 2014.

Adoption rates confirm the high level of migration of customers to the new digital offerings. The share of products requested through our digital channels – covering our website, e-banking portal and customer care center – is continuously increasing and currently accounts for more than 10% of consumer loans and over 17% of securities transactions.

Outlook

In the second half 2015, we will further expand our online product offering and intend to have all basic products online by year-end. Additionally, we continue to see opportunities across our core products and service offerings across both our physical and digital channels. We plan to launch a number of strategic and operational initiatives during the second half of the year that will lay the groundwork for continued profitable growth.

Financial Results

Income metrics (in EUR million)	**Q2 2015**	Q2 2014	Change (%)	**Jan–Jun 2015**	Jan–Jun 2014	Change (%)
Net interest income	95.4	101.0	(5.5)	190.7	196.0	(2.7)
Net fee and commission income	40.5	41.4	(2.2)	83.4	87.4	(4.6)
Core revenues	**135.9**	**142.4**	**(4.6)**	**274.1**	**283.3**	**(3.2)**
Gains and losses on financial instruments	0.0	0.6	(100)	0.8	0.8	–
Other operating income and expenses	(0.2)	0.9	–	1.3	1.6	(18.8)
Operating income	**135.7**	**143.9**	**(5.7)**	**276.2**	**285.7**	**(3.3)**
Operating expenses	**(77.7)**	**(87.8)**	**(11.5)**	**(159.4)**	**(178.8)**	**(10.9)**
Total risk costs	(7.6)	(12.0)	(36.7)	(18.1)	(21.1)	(14.2)
Profit before tax (= net profit)	**50.4**	**44.1**	**14.3**	**98.7**	**85.8**	**15.0**

Key ratios	**Q2 2015**	Q2 2014	Change (pts)	**Jan–Jun 2015**	Jan–Jun 2014	Change (pts)
Return on equity	36.7%	38.5%	(1.8)	37.6%	38.6%	(1.0)
Return on risk-weighted assets	5.85%	5.12%	0.73	5.79%	5.10%	0.69
Net interest margin	3.90%	4.22%	(0.32)	3.95%	4.09%	(0.14)
Cost-income ratio	57.3%	61.0%	(3.7)	57.7%	62.6%	(4.9)
Risk costs / loans and receivables	0.31%	0.51%	(0.20)	0.38%	0.45%	(0.07)
NPL ratio	2.67%	3.27%	(0.60)	2.67%	3.27%	(0.60)

Business volumes (in EUR million)	**Jun 2015**	Dec 2014	Change (%)	Jun 2014	Change (%)
Assets	9,756	9,579	1.8	9,630	1.3
Risk-weighted assets	3,404	3,420	(0.5)	3,624	(6.1)
Customer deposits	18,390	18,746	(1.9)	18,842	(2.4)

The segment achieved a net profit of EUR 98.7 million in the first half 2015, compared to EUR 85.8 million in the first half 2014. This 15.0% increase was driven by reduced operating expenses (minus 10.9%) and risk costs (minus 14.2%). Core revenues in the first half 2015 decreased slightly by 3.2% compared to the same period in 2014, driven primarily by a one-off commission payment in 2014 as well as impacts from a low interest rate environment on the asset side. The segment's cost-income ratio further improved to 57.7%, representing a 4.9 point decrease from first half 2014.

CORPORATE LENDING AND INVESTMENTS

Strategy

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

We continued to focus on our business solution partner concept to service our Austrian corporate and public sector clients according to their needs with the full range of financing, investment and payment servicing products fulfilled by a dedicated team of sales professionals across the country. Our focus in Austria continues to be on maintaining and acquiring sustainable relationships while holding strong pricing discipline on our credit products despite the competitive landscape. Our international lending strategy remains primarily focused on stronger Western European countries, such as Germany, the UK and France as well as the United States, which account for approximately 70% of the total portfolio.

At the same time, we have further managed down non-core legacy loan assets from CEE countries as well as underperforming assets within Austria, which were characterized by low return and riskier geographic exposures or were in business lines in which BAWAG P.S.K. had a limited competitive advantage. The remaining corporate loan exposure to CEE countries is below 0.4% of the balance sheet total.

First Half 2015 Business Review

Austrian Corporate Business

Overall corporate and public sector loan demand in Austria remained low as seen in 2014 – resulting from several factors including flat domestic output, lower corporate investment due to concerns arising from CEE and Russia as well as other macro risks across Europe. Our business solution teams in Austria continued to elevate our strong client relationships across financing products as well as payments and cash management services, while striving to maintain and increase strong risk-adjusted pricing for the Bank.

New business volume followed the weak market trend. The business recorded EUR 167 million of new investment in addition to normal renewals in the first half 2015. Overall market share decreased slightly due to the proactive refinancing of customers who could not meet minimum profitability requirements as well as early redemptions of companies using the competitive environment for cheaper refinancings.

Net fee and commission income – mainly arising from payment activities of our clients – decreased slightly due to the pricing environment at stable transaction volumes.

International Business

We continued to focus on our loan origination opportunities predominantly in select developed Western countries.

Our **international corporate business** reported an investment volume of EUR 500 million in the first half 2015. Repricing and refinancing continued as companies took advantage of the low interest rates and strong market conditions, resulting in a portfolio volume of EUR 3.7 billion, which is EUR 300 million lower than at year-end 2014. Our new business volume primarily consists of investment grade loans with a general focus on more defensive industries. Overall blended net leverage of the companies in our international corporate portfolio was <4.0x and for the tranches BAWAG P.S.K. lends to <3.0x in the first half 2015.

Our **international real estate financing operations** continued to realize their growth potential by funding new business of EUR 1.0 billion in the first half 2015, leading to a total portfolio volume of EUR 2.5 billion. This is EUR 300 million higher than at year-end 2014. Transaction diversification continues across our commercial real estate lending business on a geographic, asset and industry basis. These transactions focused primarily on traditional real estate financings with attractive LTVs, strong cash flow, shorter weighted expected maturities and solid covenant characteristics. Overall portfolio performance and credit trends remain solid with some shortening of duration as loan amortizations increase ahead of original projections. We are also active in portfolio financing transactions where low loan-to-value (LTV) / low loan-to-cost (LTC) positions against a more diversified portfolio of cash generating real estate assets. The portfolio has strong collateral coverage characteristics (average LTV <60%), provides strong cash flows (average debt yield of >10%) and is structured to perform well even in stressed market conditions, offset by short average durations.

Outlook

We expect that recent volatility and lower profitability in the CEE region for other Austrian banks may actually result in greater pricing discipline in Austria over an intermediate time frame as well as opportunities for us to capture new client relationships. Overall, we saw improved blended pricing margins for new volumes during the second quarter and we expect higher overall volumes over the remainder of the year. Further, we will continue our strategy of deleveraging our non-core exposures while supporting our core customers with more simplified products, services and advice.

In the international business, we see a solid pipeline of diversified transactions for the second half 2015 which will be able to absorb increased refinancing activities and therefore expect a stable volume for both international corporate and real estate assets. We expect slightly lower overall margins for the remainder of 2015 with competition across Europe increasing for high-quality corporate and real estate transactions.

Financial Results

Income metrics (in EUR million)	Q2 2015	Q2 2014	Change (%)	Jan–Jun 2015	Jan–Jun 2014	Change (%)
Net interest income	63.3	50.4	25.6	124.4	95.0	30.9
Net fee and commission income	10.1	9.6	5.2	19.9	21.3	(6.6)
Core revenues	**73.4**	**60.0**	**22.3**	**144.3**	**116.3**	**24.1**
Gains and losses on financial instruments	(6.6)	(0.8)	>(100)	(0.4)	(0.4)	–
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**66.8**	**59.2**	**12.8**	**143.9**	**115.9**	**24.2**
Operating expenses	**(20.9)**	**(19.4)**	**7.7**	**(42.6)**	**(39.6)**	**7.6**
Total risk costs	(1.8)	(7.1)	(74.6)	(3.2)	(19.1)	(83.2)
Profit before tax (= net profit)	**44.1**	**32.7**	**34.9**	**98.1**	**57.2**	**71.5**

Key ratios	Q2 2015	Q2 2014	Change (pts)	Jan–Jun 2015	Jan–Jun 2014	Change (pts)
Return on equity	14.8%	13.5%	1.3	17.0%	12.0%	5.0
Return on risk-weighted assets	2.36%	1.79%	0.57	2.62%	1.59%	1.03
Net interest margin	1.84%	1.55%	0.29	1.81%	1.46%	0.35
Cost-income ratio	31.3%	32.8%	(1.5)	29.6%	34.2%	(4.6)
Risk costs / loans and receivables	0.06%	0.24%	(0.18)	0.05%	0.32%	(0.27)
NPL ratio	0.65%	2.48%	(1.83)	0.65%	2.48%	(1.83)

Business volumes (in EUR million)	Jun 2015	Dec 2014	Change (%)	Jun 2014	Change (%)
Assets	13,644	13,885	(1.7)	13,054	4.5
Risk-weighted assets	7,345	7,643	(3.9)	7,421	(1.0)
Customer deposits (incl. other refinancing)	2,400	3,230	(25.7)	3,332	(28.0)

The segment contributed EUR 98.1 million to the Bank's net profit in the first half 2015 compared to EUR 57.2 million in the same period last year. This 71.5% increase was mainly driven by higher core revenues of EUR 144.3 million (+24.1% compared to the first half 2014) and low risk costs of EUR 3.2 million (EUR 19.1 million in the first half 2014). Deleveraging of non-core assets and reallocation into more profitable assets resulted in an increase of net interest income by 30.9% compared to the first half 2014. During the same period, net fee and commission income decreased from EUR 21.3 million to EUR 19.9 million.

Low risk costs in the first half 2015 and an NPL ratio of 0.65% (down 1.84 points from first half 2014) reflect positive impacts from our de-risking actions.

TREASURY SERVICES AND MARKETS

First Half 2015 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.

Among the key responsibilities of Treasury Services and Markets is the management of the Bank's 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 focus on investment grade securities predominantly representing unsecured and secured bonds of financials in core Europe and the United States as well as select sovereign bond exposures and high-quality CLOs (100% AAA-rated at quarter-end) in order to maintain solid diversification.

During the first half 2015, Treasury Services and Markets moderately increased investment and designation in held-to-maturity securities to EUR 2.2 billion in total as of 30 June 2015, while at the same time available-for-sale securities and fair value positions were reduced to EUR 2.4 billion. Overall derivatives volumes were reduced to below EUR 50 billion at the end of the reporting period. We continue to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our available-for-sale portfolio to preserve the flexibility of redeployment in other customer loans or receivables, or other balance sheet management activities.

As of 30 June 2015, Treasury Services and Markets managed a total investment portfolio of EUR 5.2 billion. The portfolio's average maturity was 3.9 years, comprised 99% of investment grade-rated securities (100% investment grade issuer ratings) of which 83% were rated in the single A category or higher. Exposure to CEE represented less than 5% of the portfolio and was limited to select bonds, with 90% rated in the single A equivalent category or better. The Bank has no exposure to HETA in its securities portfolio. The portfolio had no direct exposure to Russia, Hungary or South-Eastern Europe as of 30 June 2015. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. This overall composition reflects the Bank's strategy to maintain high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Financial Results

Income metrics (in EUR million)	**Q2 2015**	Q2 2014	Change (%)	**Jan–Jun 2015**	Jan–Jun 2014	Change (%)
Net interest income	14.1	11.5	22.6	27.0	24.7	9.3
Net fee and commission income	0.0	(0.1)	100	0.0	0.0	–
Core revenues	**14.1**	**11.4**	**23.7**	**27.0**	**24.7**	**9.3**
Gains and losses on financial instruments	5.7	17.7	(67.8)	6.9	17.9	(61.5)
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**19.8**	**29.1**	**(32.0)**	**33.9**	**42.6**	**(20.4)**
Operating expenses	**(4.4)**	**(5.7)**	**(22.8)**	**(9.5)**	**(11.2)**	**(15.2)**
Total risk costs	0.0	0.0	–	0.0	0.0	–
Profit before tax (= net profit)	**15.4**	**23.4**	**(34.2)**	**24.4**	**31.4**	**(22.3)**

Key ratios	**Q2 2015**	Q2 2014	Change (pts)	**Jan–Jun 2015**	Jan–Jun 2014	Change (pts)
Return on equity	22.8%	33.4%	(10.6)	16.5%	27.4%	(10.9)
Return on risk-weighted assets	3.64%	4.43%	(0.79)	2.52%	3.64%	(1.12)
Net interest margin	1.07%	0.81%	0.26	0.99%	0.91%	0.08
Cost-income ratio	22.2%	19.6%	2.6	28.0%	26.3%	1.7

Business volumes (in EUR million)	**Jun 2015**	Dec 2014	Change (%)	Jun 2014	Change (%)
Assets	5,171	5,755	(10.1)	5,695	(9.2)
Risk-weighted assets	1,703	2,172	(21.6)	2,041	(16.6)

Core revenues in the first half 2015 rose to EUR 27.0 million, an increase of 9.3% compared to the first half 2014. Due to lower gains and losses from financial instruments, the net profit declined to EUR 24.4 million, a decrease of 22.3% compared to the first half 2014.

Selective new investments and strategic sales supported a decrease of risk-weighted assets by 21.6% to EUR 1.7 billion at the end of the first half 2015 compared to EUR 2.2 billion at year-end 2014.

CORPORATE CENTER

First Half 2015 Review

The Corporate Center contains central functions such as Risk, Legal and the Group Asset-Liability Management. The liquidity reserve of the Bank and positive market values from derivatives represent the largest portion of assets, while own issues represent the majority of the liabilities. In addition to the bank levy, all restructuring expenses, tax-related expenses and other one-off items are included in this segment.

In the first half 2015, the segment showed a balanced performance. The liquidity reserve and other assets as well as risk-weighted assets were reduced by asset sales and redemptions. The increase in liabilities was mainly driven by a more consistent presentation of OeKB and EIB funds, which were previously shown in the Corporate Lending and Investments segment. In terms of risk-weighted assets, approximately half of the total amount of EUR 3.3 billion relates to operational risk, captured in the Corporate Center.

Financial Results

Income metrics (in EUR million)	**Q2 2015**	Q2 2014	Change (%)	**Jan–Jun 2015**	Jan–Jun 2014	Change (%)
Net interest income	11.0	5.8	89.7	21.1	2.3	>100
Net fee and commission income	0.8	1.1	(27.3)	(1.4)	(1.6)	12.5
Core revenues	**11.8**	**6.9**	**71.0**	**19.7**	**0.8**	**>100**
Gains and losses on financial instruments	(5.4)	3.8	–	16.4	21.2	(22.6)
Other operating income and expenses	0.2	1.1	(81.8)	0.3	9.7	(96.9)
Operating income	**6.6**	**11.8**	**(44.1)**	**36.4**	**31.6**	**15.2**
Operating expenses	**(3.3)**	**(6.9)**	**(52.2)**	**(13.3)**	**(13.6)**	**(2.2)**
Total risk costs	(2.5)	1.2	–	(1.6)	2.7	–
Bank levy	(5.7)	(6.2)	(8.1)	(11.5)	(12.3)	(6.5)
Share of the profit or loss of associates accounted for using the equity method	0.5	(0.3)	–	1.8	(0.9)	–
Profit before tax	**(4.4)**	**(0.4)**	**>(100)**	**11.8**	**7.5**	**57.3**
Net profit	**(4.5)**	**(5.1)**	**11.8**	**4.9**	**0.7**	**>100**

Volumes (in EUR million)	**Jun 2015**	Dec 2014	Change (%)	Jun 2014	Change (%)
Liquidity reserve and other assets	5,225	5,432	(3.8)	6,148	(15.0)
Risk-weighted assets	3,315	3,557	(6.8)	3,683	(10.0)
Own issues, equity and other liabilities	13,008	12,675	2.6	12,347	5.4

RISK MANAGEMENT

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

OUTLOOK

Our **key operating targets for 2015** – as outlined in our Annual Report 2014 – are as follows:

- Net profit > EUR 400 million and return on equity > 14%
- Net cost-out of 5-10% and cost-income ratio < 50%
- NPL ratio of < 2.5%
- Fully loaded CET1 ratio > 12% and total capital > 16%
- Fully loaded leverage ratio > 6%
- Liquidity coverage ratio > 100%

BAWAG P.S.K. has delivered very strong results in the first half 2015. We anticipate this positive trend to continue throughout the remainder of the year. All key financial targets are expected to be outperformed from today's perspective.

DEFINITIONS

Business net interest margin	Net interest income (excl. Corporate Center) / average total assets (excl. Corporate Center)
Common Equity Tier 1 capital (CET1)	Based on IFRS CRR regulatory figures (BAWAG P.S.K. Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital (CET1) / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
IFRS equity	Equity attributable to the owners of the parent; excluding participation capital and minorities
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets
Leverage ratio	Common Equity Tier 1 capital (CET1) / total exposure (calculation according to CRR, based on Promontoria Sacher Holding N.V. Group)
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR, based on Promontoria Sacher Holding N.V. Group)
Net interest margin	Net interest income / average total assets
Net profit	Profit after tax attributable to owners of the parent
NPL ratio	Non-performing loans (NPLs) / loans and receivables (including provisions); loans are not included in NPLs if no economic loss is expected
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses
Operating profit	Operating income less operating expenses and bank levy
Return on equity	Net profit / average IFRS equity
Return on risk-weighted assets	Net profit / average risk-weighted assets
Return on tangible equity	Net profit / average IFRS tangible equity
Return on total assets	Net profit / average total assets
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG P.S.K. Group, fully loaded)
Risk costs / loans and receivables	Provisions and loan-loss provisions as well as impairment losses (total risk costs) / average loans and receivables (including provisions)
Total capital	Based on IFRS CRR regulatory figures (BAWAG P.S.K. Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Total capital ratio	Total capital / risk-weighted assets

Consolidated Interim Financial Statements

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	Jan–Jun 2015	Jan–Jun 2014*)	Q2 2015	Q2 2014*)
Interest income		532.7	539.9	259.5	272.9
Interest expense		(178.9)	(226.3)	(82.5)	(108.5)
Dividend income		9.4	4.4	6.8	4.4
Net interest income	**[1]**	**363.2**	**318.0**	**183.8**	**168.8**
Fee and commission income		149.6	158.8	74.7	76.6
Fee and commission expenses		(47.7)	(51.7)	(23.3)	(24.7)
Net fee and commission income	**[2]**	**101.9**	**107.1**	**51.4**	**51.9**
Gains and losses on financial assets and liabilities	[3]	23.7	42.2	(6.3)	24.0
Other operating income and expenses		(9.9)	(1.0)	(5.7)	(4.2)
Operating expenses	[4]	(224.8)	(243.2)	(106.4)	(119.8)
Provisions and impairment losses	[5]	(22.9)	(37.5)	(11.9)	(17.9)
Share of the profit or loss of associates accounted for using the equity method		1.8	(0.9)	0.5	(0.3)
Profit before tax		**233.0**	**184.7**	**105.5**	**102.5**
Income taxes		(6.9)	(6.3)	(0.1)	(4.4)
Profit after tax		**226.1**	**178.4**	**105.4**	**98.1**
Thereof attributable to non-controlling interests		0.0	3.4	0.0	3.0
Thereof attributable to owners of the parent		**226.1**	**175.0**	**105.4**	**95.1**

*) Adjusted

In accordance with IFRS, the item Other operating income and expenses also includes the bank levy in the amount of EUR 11.5 million. However, the Bank's management sees the bank levy as a non-operating expense. Accordingly, it is shown in a separate expense line in the Interim Group Management Report.

Other operating expenses for the first half 2015 include the estimated contribution to the Austrian bank resolution fund in the amount of EUR 3.3 million which will be payable by the end of 2015.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	[Notes]	Jan-Jun 2015	Jan-Jun 2014	Q2 2015	Q2 2014
Profit after tax		**226.1**	**178.4**	**105.4**	**98.1**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/loss on defined benefit plans	[12]	13.9	(25.0)	33.4	(25.0)
Income tax on items that will not be reclassified		(3.5)	6.3	(8.4)	6.3
Total items that will not be reclassified to profit or loss		**10.4**	**(18.7)**	**25.0**	**(18.7)**
Items that may be reclassified subsequently to profit or loss					
Available-for-sale reserve		(67.6)	(0.1)	(64.5)	(2.5)
Income tax relating to items that may be reclassified		16.6	(0.2)	15.9	0.6
Total items that may be reclassified subsequently to profit or loss		**(51.0)**	**(0.3)**	**(48.6)**	**(1.9)**
Total comprehensive income, net of tax		**185.5**	**159.4**	**81.8**	**77.5**
Thereof attributable to non-controlling interests		0.0	3.4	0.0	3.1
Thereof attributable to owners of the parent		**185.5**	**156.0**	**81.8**	**74.4**

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	Jun 2015	Dec 2014
Cash reserves		446	684
Financial assets designated at fair value through profit or loss		308	450
Available-for-sale financial assets	[6]	3,080	3,833
Held-to-maturity investments		2,210	2,042
Financial assets held for trading	[7]	1,022	1,163
Loans and receivables	[8]	25,523	25,280
Customers		21,918	21,779
Securities		1,372	1,983
Credit institutions		2,233	1,518
Hedging derivatives		445	546
Property, plant and equipment		75	84
Goodwill		1	1
Software and other intangible assets		101	102
Tax assets for current taxes		7	7
Tax assets for deferred taxes		255	243
Associates recognized at equity		36	37
Other assets		115	111
Assets in disposal groups	[13]	173	68
Total assets		**33,797**	**34,651**

The line items Goodwill and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 17 of this Consolidated Interim Report. As of 30 June 2015, the line items Assets in disposal groups and Obligations in disposal groups include the carrying amounts of assets and liabilities of BAWAG Malta Bank Limited. As of 31 December 2014, the line items Assets in disposal groups and Obligations in disposal groups included the carrying amounts of assets and liabilities of BAWAG P.S.K. INVEST GmbH, which was sold in February 2015.

Total liabilities and equity

in EUR million	[Notes]	Jun 2015	Dec 2014
Total liabilities		**31,202**	**32,246**
Financial liabilities designated at fair value through profit or loss	[9]	1,609	1,675
Financial liabilities held for trading	[10]	1,393	1,174
Financial liabilities at amortized cost	[11]	26,992	27,993
Customers		20,843	21,135
Issued bonds, subordinated and supplementary capital		4,103	4,438
Credit institutions		2,046	2,420
Valuation adjustment on interest rate risk hedged portfolios		119	196
Hedging derivatives		132	160
Provisions	[12]	443	522
Tax liabilities for deferred taxes		2	3
Other obligations		511	517
Obligations in disposal groups	[13]	1	6
Total equity		**2,595**	**2,405**
Equity attributable to the owners of the parent		2,595	2,405
Total liabilities and equity		**33,797**	**34,651**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Participation capital[1)]	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2014	**250.0**	**350.0**	**1,510.7**	**228.0**	**98.8**	**(34.4)**	**2,403.1**	**395.3**	**2,798.4**
Transactions with owners	–	–	121.1	–	–	–	121.1	(398.7)	(277.6)
Owner's contribution	–	–	121.1	–	–	–	121.1	–	121.1
Redemption of participation capital	–	(350.0)	–	–	–	–	(350.0)	–	(350.0)
Dividends	–	–	–	(54.5)	–	–	(54.5)	–	(54.5)
Total comprehensive income	–	–	–	175.0	(0.3)	(18.7)	156.0	3.4	159.4
Balance as of 30.06.2014	**250.0**	**–**	**1,631.8**	**348.5**	**98.5**	**(53.1)**	**2,275.7**	**0.0**	**2,275.7**
Balance as of 01.01.2015	**250.0**	**–**	**1,636.3**	**496.5**	**107.0**	**(84.5)**	**2,405.3**	**0.0**	**2,405.3**
Transactions with owners	–	–	4.0	–	–	–	4.0	–	4.0
Owner's contribution	–	–	4.0	–	–	–	4.0	–	4.0
Total comprehensive income	–	–	–	226.1	(51.0)	10.4	185.5	–	185.5
Balance as of 30.06.2015	**250.0**	**–**	**1,640.3**	**722.6**	**56.0**	**(74.1)**	**2,594.8**	**0.0**	**2,594.8**

1) Participation capital according to section 26b BWG.

CONDENSED CASH FLOW STATEMENT

in EUR million	Jan–Jun 2015	Jan–Jun 2014
Cash and cash equivalents at end of previous period	**684**	**481**
Profit (after tax, before non-controlling interests)	226	175
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(314)	(298)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(1,032)	751
Interest receipts/paid	418	391
Dividend receipts	9	4
Net cash from operating activities	**(693)**	**1,023**
Cash receipt from the sale of company building	–	150
Full redemption of non-controlling interests	–	(399)
Cash receipt from sales of subsidiaries	105	–
Other net investing cash in/outflow	441	(176)
Net cash used in investing activities	**546**	**(425)**
Capital contributions	–	125
Redemption of participation capital	–	(350)
Dividends paid	–	(55)
Redemption of hybrid capital issue (BCF II)	(83)	–
Others	(8)	(16)
Net cash from financing activities	**(91)**	**(296)**
Cash and cash equivalents at end of period	**446**	**783**

NOTES

The consolidated interim financial statements of BAWAG P.S.K. Group as of 30 June 2015 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 half 2015 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 2014.

The following new interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2015, but have no material effect on the consolidated interim financial statements of BAWAG P.S.K.:

- Amendments to IAS 19 Employee Benefits: Defined Benefit Plans – Employee Contributions
- IFRIC 21 Levies
- Annual Improvements to IFRS (2010-2012 Cycle)
- Annual Improvements to IFRS (2011-2013 Cycle)

The valuation principles as of 31 December 2014 were applied again.

As of 30 June 2015, the Group consists of 29 (31 December 2014: 30) fully consolidated entities and 2 (31 December 2014: 2) entities that are accounted for using the equity method in Austria and abroad. In the first quarter of 2015, BAWAG P.S.K. INVEST GmbH was sold and, thus, deconsolidated. BV Vermögensverwaltung GmbH was deconsolidated as of 30 April 2015 due to immateriality. In May 2015, BAWAG P.S.K. Autoleasing GmbH was renamed to BAWAG P.S.K. LEASING GmbH and was included in the scope of consolidation for the first time. The former BAWAG P.S.K. LEASING GmbH was renamed to BAWAG P.S.K. LEASING Holding GmbH.

The interim financial statements for the first half 2015 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 2014, we refer to the Notes to the consolidated financial statements as of 31 December 2014.

CHANGE IN PRESENTATION OF INTEREST EXPENSE WITHIN IAS 19 – EMPLOYEE BENEFITS

IAS 19 does not include any rules on the presentation of interest expense in the profit or loss statement in connection with provisions for social capital. Accordingly, the interest component can be shown either under the line item interest expense or staff costs. Until 2014, the disclosure was done under the line item operating expenses. In the current financial reporting period, the management has decided to reclassify the interest expense of provisions for social capital from operating expenses to interest expense for a more transparent disclosure and an improved interest cost allocation for social capital. Comparative amounts for the previous period were adjusted accordingly. The following table shows the effects in 2015 and 2014 on each item that was reclassified:

in EUR million	**Jan–Jun 2015**	Jan–Jun 2014
Operating expenses	+4.9	+7.4
Interest expense	(4.9)	(7.4)

MAJOR EVENTS AFTER THE REPORTING DATE

BAWAG Allianz Vorsorgekasse AG

The sale of our share in BAWAG Allianz Vorsorgekasse AG to the co-shareholder was completed on 22 July 2015 after fulfillment of all conditions precedent.

Österreichische Lotterien GmbH

The sale of our indirect share of 2.18% in Österreichische Lotterien GmbH to NOVOMATIC AG took place on 4 August 2015.

State Street

Amundi, the new owner of BAWAG P.S.K. INVEST GmbH since February 2015, and BAWAG P.S.K. have mutually agreed to assign the Viennese branch of State Street as the new custodian bank for funds of BAWAG P.S.K. INVEST GmbH. The assignment is still subject to regulatory approvals.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 I Net interest income

in EUR million	Jan–Jun 2015	Jan–Jun 2014*)
Interest income	532.7	539.9
Interest expense	(178.9)	(226.3)
Dividend income	9.4	4.4
Net interest income	**363.2**	**318.0**

*) Adjusted

2 I Net fee and commission income

in EUR million	Jan–Jun 2015	Jan–Jun 2014
Fee and commission income	**149.6**	**158.8**
Payment transfers	84.6	91.3
Lending	12.3	15.0
Securities and custody business	30.0	31.7
Other	22.7	20.8
Fee and commission expenses	**(47.7)**	**(51.7)**
Payment transfers	(18.7)	(19.9)
Other	(29.0)	(31.8)
Net fee and commission income	**101.9**	**107.1**

3 | Gains and losses on financial assets and liabilities

in EUR million	Jan–Jun 2015	Jan–Jun 2014
Realized gains on sales of subsidiaries and securities	40.5	25.7
Fair value gains and losses	(17.9)	9.0
Gains (losses) from fair value hedge accounting	0.7	1.1
Others	0.4	6.4
Gains and losses on financial assets and liabilities	**23.7**	**42.2**

4 | Operating expenses

in EUR million	Jan–Jun 2015	Jan–Jun 2014*)
Staff costs	(128.1)	(134.1)
Other administrative expenses	(80.5)	(91.4)
Depreciation and amortization on tangible and intangible assets	(16.2)	(15.0)
Restructuring and other one-off expenses	0.0	(2.6)
Operating expenses	**(224.8)**	**(243.2)**

*) Adjusted

5 | Provisions and impairment losses

in EUR million	Jan–Jun 2015	Jan–Jun 2014
Loan-loss provisions and changes in provisions for off-balance credit risk	(22.9)	(37.5)
Impairment losses on financial assets	0.0	0.0
Provisions and impairment losses	**(22.9)**	**(37.5)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 I Available-for-sale financial assets

in EUR million	Jun 2015	Dec 2014
Bonds	**3,003**	**3,757**
Bonds of other issuers	2,730	3,134
Public sector debt instruments	273	623
Subsidiaries and other equity investments	**77**	**76**
Available-for-sale financial assets	**3,080**	**3,833**

7 I Financial assets held for trading

in EUR million	Jun 2015	Dec 2014
Derivatives in trading book	430	404
Derivatives in banking book	592	759
Financial assets held for trading	**1,022**	**1,163**

8 I Loans and receivables

Jun 2015 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	**21,586**	**597**	**(222)**	**(43)**	**21,918**
thereof IBNR portfolio provision[1)]	0	0	0	(30)	(30)
Securities	**1,372**	**0**	**0**	**0**	**1,372**
Receivables from credit institutions	**2,233**	**0**	**0**	**0**	**2,233**
Total	**25,191**	**597**	**(222)**	**(43)**	**25,523**

1) Allowance for incurred but not reported losses.

Dec 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	**21,441**	**616**	**(236)**	**(42)**	**21,779**
thereof IBNR portfolio provision[1)]	0	0	0	(31)	(31)
Securities	**1,983**	**0**	**0**	**0**	**1,983**
Receivables from credit institutions	**1,518**	**0**	**0**	**0**	**1,518**
Total	**24,942**	**616**	**(236)**	**(42)**	**25,280**

1) Allowance for incurred but not reported losses.

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

Jun 2015 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
Retail Banking and Small Business	9,505	249	(170)	(13)	9,570
Corporate Lending and Investments	12,920	64	(42)	0	12,942
Treasury Services and Markets	569	0	0	0	569
Corporate Center	2,197	284	(10)	(30)	2,441
Total	**25,191**	**597**	**(222)**	**(43)**	**25,523**

Dec 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
Retail Banking and Small Business	9,240	237	(158)	(11)	9,308
Corporate Lending and Investments	13,089	93	(67)	0	13,115
Treasury Services and Markets	959	0	0	0	959
Corporate Center	1,654	286	(11)	(31)	1,898
Total	**24,942**	**616**	**(236)**	**(42)**	**25,280**

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

Receivables from customers – Breakdown by credit type

in EUR million	**Jun 2015**	Dec 2014
Loans	19,486	19,533
Current accounts	1,589	1,423
Finance leases	631	672
Cash advances	212	151
Receivables from customers	**21,918**	**21,779**

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

in EUR million	Jun 2015	Dec 2014
Issued debt securities	1,195	1,289
Subordinated and supplementary capital	413	386
Financial liabilities designated at fair value through profit or loss	**1,609**	**1,675**

10 | Financial liabilities held for trading

in EUR million	Jun 2015	Dec 2014
Derivatives trading book	420	403
Derivatives banking book	973	771
Financial liabilities held for trading	**1,393**	**1,174**

11 | Financial liabilities measured at amortized cost

in EUR million	Jun 2015	Dec 2014
Deposits from banks	**2,046**	**2,420**
Deposits from customers	**20,843**	**21,135**
Savings deposits – fixed interest rates	2,817	3,439
Savings deposits – variable interest rates	4,429	4,321
Deposit accounts – variable interest rates	5,428	5,344
Current accounts – Retail	5,774	5,654
Current accounts – Corporates	1,793	1,814
Other deposits[1)]	602	563
Issued bonds, subordinated and supplementary capital	**4,103**	**4,438**
Issued debt securities	3,591	3,831
Subordinated and supplementary capital	513	607
Financial liabilities measured at amortized cost	**26,992**	**27,993**

1) Primarily time deposits.

12 | Provisions

in EUR million	Jun 2015	Dec 2014
Provisions for social capital	413	489
Anticipated losses from pending business	24	27
Other items including legal risks	6	6
Provisions	**443**	**522**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. The interest rate used has been changed from 2.05% as of 31 December 2014 to 2.20%, which resulted in an impact of plus EUR 8.9 million in other comprehensive income and plus EUR 0.4 million in profit or loss.

13 | Disclosures in compliance with IFRS 5 – Assets in disposal groups and Obligations in disposal groups

According to IFRS 5, disposal groups consisting of assets and liabilities are to be classified as held for sale when the associated carrying amount stems primarily from a sale transaction and not from continued usage, and the sale is expected to be effected within twelve months. For this reason, the carrying amounts of the assets and liabilities of BAWAG Malta Bank Limited are reported on the Consolidated Statement of Financial Position under the items Assets in disposal groups and Obligations in disposal groups. The following table shows a breakdown of these items.

The proceeds of sale exceed the carrying amount of the related net assets and, accordingly, no impairment losses were recognized on the reclassification as held for sale.

The segment "Corporate Center" includes BAWAG Malta Bank Limited.

in EUR million	Jun 2015
Assets in disposal groups	**173**
Loans and receivables – Securities	89
Financial assets designated at fair value through profit or loss	31
Available-for-sale financial assets	31
Loans and receivables – Customers	18
Held-to-maturity investments	4
Obligations in disposal groups	**1**
Financial liabilities at amortized cost – Customers	1

14 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Jun 2015 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	0	1,308	60	0	162
Securities	0	0	0	21	0
Other assets (incl. derivatives)	0	2	7	0	0
Financial liabilities – customers	2	0	18	113	13
Other liabilities (incl. derivatives)	0	0	0	4	0
Guarantees provided	0	0	0	0	2
Interest income	0.0	27.0	1.0	0.2	1.6
Interest expenses	0.0	0.0	0.0	1.2	0.0
Net fee and commission income	0.0	0.0	0.0	12.6	0.7

Dec 2014 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	0	1,085	63	0	164
Securities	0	62	0	22	0
Other assets (incl. derivatives)	0	2	7	0	0
Financial liabilities – customers	8	0	17	126	16
Other liabilities (incl. derivatives)	0	0	0	7	0
Guarantees provided	0	0	0	0	2
Interest income	0.0	25.7	2.2	0.4	3.4
Interest expenses	0.0	0.0	0.0	2.8	0.0
Net fee and commission income	0.0	0.0	0.0	22.0	1.1

Information regarding natural persons

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

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
in EUR million	**Jun 2015**	**Jun 2015**	Dec 2014	Dec 2014
Current account deposits	5	1	3	2
Savings deposits	0	3	1	2
Loans	0	1	0	2
Securities	0	1	0	1

15 | Segment reporting

This information is based on the Group structure as of 30 June 2015.

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. 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.

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

- **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. Furthermore, the operational risk is allocated to this segment.

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 Jan–Jun 2015	Retail Banking and Small Business Jan–Jun 2014	Corporate Lending and Investments Jan–Jun 2015	Corporate Lending and Investments Jan–Jun 2014	Treasury Services and Markets Jan–Jun 2015	Treasury Services and Markets Jan–Jun 2014	Corporate Center Jan–Jun 2015	Corporate Center Jan–Jun 2014[1]	Total Jan–Jun 2015	Total Jan–Jun 2014[1]
Net interest income	190.7	196.0	124.4	95.0	27.0	24.7	21.1	2.3	363.2	318.0
Net fee and commission income	83.4	87.4	19.9	21.3	0.0	0.0	(1.4)	(1.6)	101.9	107.1
Core revenues	**274.1**	**283.3**	**144.3**	**116.3**	**27.0**	**24.7**	**19.7**	**0.8**	**465.1**	**425.1**
Gains and losses on financial instruments	0.8	0.8	(0.4)	(0.4)	6.9	17.9	16.4	21.2	23.7	39.5
Other operating income and expenses	1.3	1.6	0.0	0.0	0.0	0.0	0.3	9.7	1.6	11.2
Operating income	**276.2**	**285.7**	**143.9**	**115.9**	**33.9**	**42.6**	**36.4**	**31.6**	**490.4**	**475.8**
Operating expenses	**(159.4)**	**(178.8)**	**(42.6)**	**(39.6)**	**(9.5)**	**(11.2)**	**(13.3)**	**(13.6)**	**(224.8)**	**(243.2)**
Bank levy	–	–	–	–	–	–	(11.5)	(12.3)	(11.5)	(12.3)
Total risk costs	(18.1)	(21.1)	(3.2)	(19.1)	0.0	0.0	(1.6)	2.7	(22.9)	(37.5)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	1.8	(0.9)	1.8	(0.9)
Profit before tax	**98.7**	**85.8**	**98.1**	**57.2**	**24.4**	**31.4**	**11.8**	**7.5**	**233.0**	**181.9**
Income taxes	–	–	–	–	–	–	(6.9)	(6.3)	(6.9)	(6.3)
Profit after tax	**98.7**	**85.8**	**98.1**	**57.2**	**24.4**	**31.4**	**4.9**	**1.2**	**226.1**	**175.6**
Non-controlling interests	–	–	–	–	–	–	0.0	(0.6)	0.0	(0.6)
Net profit	**98.7**	**85.8**	**98.1**	**57.2**	**24.4**	**31.4**	**4.9**	**0.7**	**226.1**	**175.0**
Business volumes										
Assets	9,756	9,630	13,644	13,054	5,171	5,695	5,225	6,148	33,797	34,527
Risk-weighted assets[2]	3,404	3,624	7,345	7,421	1,703	2,041	3,315	3,683	15,766	16,769

1) Adjusted figures. For details, please see “Change in presentation of interest expense within IAS 19 – employee benefits.”
2) Based on a fully loaded basis.

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 the segment table.

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

in EUR million	Jan–Jun 2015	Jan–Jun 2014
Other operating income and expenses according to segment report	1.6	11.2
Bank levy	(11.5)	(12.3)
Other operating income and expenses according to consolidated profit or loss statement	**(9.9)**	**(1.0)**

16 | Capital management

Since 1 January 2014, regulatory reporting has been performed on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group as the EU parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds of Promontoria Sacher Holding N.V. Group applying transitional rules and its own funds requirement as per 30 June 2015 and 31 December 2014 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. Own funds and capital ratios do not differ significantly from those of BAWAG P.S.K. Group.

	Promontoria	
in EUR million	**Jun 2015[3)]**	Dec 2014
Share capital	**0**	**0**
Reserves (including funds for general banking risk) after deduction of intangible assets	2,418	2,463
Other comprehensive income	(21)	20
IRB risk provision shortfalls[1)]	(26)	(11)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains	(70)	(148)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(15)	–
Excess of deduction from AT1 items over AT1 capital	(194)	(235)
Common Equity Tier I	**2,092**	**2,089**
Hybrid capital[2)]	–	68
IRB risk provision shortfalls[1)]	(20)	(21)
Deduction of intangible assets	(174)	(282)
Excess of deduction from AT1 items over AT1 capital	194	235
Additional Tier I	**–**	**–**
Tier I	**2,092**	**2,089**
Supplementary and subordinated debt capital	500	533
Hybrid capital[2)]	–	17
Excess IRB risk provisions	–	21
Less significant investments, IRB risk provision shortfalls[1)]	(40)	(43)
Tier II	**460**	**528**
Own funds	**2,552**	**2,617**

1) June 2015: According to CRR, LLPs as of 31 December 2014 including disposals until 30 June 2015.
2) According to CRR, hybrid capital is partially eligible among Additional Tier I and Tier II. In June 2015, the last eligible hybrid capital was redeemed.
3) Own funds as of 30 June 2015 differ from those as of 31 December 2014 inter alia because of different CRR transitional rules for 2015 and 2014 for the eligibility of capital and deductions from own funds.

Capital requirements based on a transitional basis

	Promontoria	
in EUR million	Jun 2015	Dec 2014
Credit risk	1,107	1,195
Market risk	14	8
Operational risk	130	129
Capital requirements	**1,251**	**1,332**

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

	Promontoria		BAWAG P.S.K.[1)]	
	Jun 2015	Dec 2014	Jun 2015	Dec 2014
Common Equity Tier I capital ratio based on total risk	13.6%	11.8%	14.2%	12.1%
Total capital ratio based on total risk	16.8%	15.4%	17.3%	15.8%

1) Figures as shown in the Interim Group Management Report.

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG P.S.K.	
	Jun 2015	Dec 2014	Jun 2015	Dec 2014
Common Equity Tier I capital ratio based on total risk	13.4%	n/a	13.7%	n/a
Total capital ratio based on total risk	16.3%	n/a	16.7%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	14.5%	12.5%	15.1%	12.9%
Total capital ratio based on total risk (incl. interim profit)	17.6%	15.7%	18.2%	16.1%

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 Jun 2015	Fair value Jun 2015	Carrying amount Dec 2014	Fair value Dec 2014
Assets				
Cash reserves	446	446	684	684
Financial assets designated at fair value through profit or loss	308	308	450	450
Available-for-sale financial assets				
Recognized at fair value	3,003	3,003	3,756	3,756
Recognized at cost	77	n/a	77	n/a
Held-to-maturity investments	2,210	2,286	2,042	2,150
Financial assets held for trading	1,022	1,022	1,163	1,163
Loans and receivables	25,523	25,897	25,280	25,629
Hedging derivatives	445	445	546	546
Tangible non-current assets	75	n/a	84	n/a
Thereof investment properties	4	6	3	6
Intangible non-current assets	102	n/a	103	n/a
Other assets	413	n/a	398	n/a
Assets in disposal groups	173	n/a	68	n/a
Total assets	**33,797**		**34,651**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,609	1,609	1,675	1,675
Financial liabilities held for trading	1,393	1,393	1,174	1,174
Financial liabilities designated at amortized cost	26,992	27,257	27,993	28,252
Valuation adjustment on interest rate risk hedged portfolios	119	119	196	196
Hedging derivatives	132	132	160	160
Provisions	443	n/a	522	n/a
Other obligations	513	n/a	520	n/a
Obligations in disposal groups	1	n/a	6	n/a
Equity	2,595	n/a	2,405	n/a
Total liabilities and equity	**33,797**		**34,651**	

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

The available-for-sale financial assets include EUR 77 million in investments in private and public limited companies. The fair value of these financial instruments has not been disclosed because their fair value cannot be measured reliably. There is no active market for these financial instruments and future cash flows cannot be calculated reliably. After the reporting date BAWAG P.S.K. sold its investments in BAWAG Allianz Vorsorgekasse AG and Österreichische Lotterien GmbH. For further details, please refer to the section entitled “Major Events after the Reporting Date.”

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. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve.

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

Jun 2015 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	2	302	4	0	308
Available-for-sale financial assets	2,899	104	0	77	3,080
Financial assets held for trading	0	1,022	0	0	1,022
Hedging derivatives	0	445	0	0	445
Total fair value assets	**2,901**	**1,873**	**4**	**77**	**4,855**
Liabilities					
Financial liabilities designated at fair value through profit or loss	0	1,131	477	0	1,609
Financial liabilities held for trading	0	1,393	0	0	1,393
Valuation adjustment on interest rate risk hedged portfolios	0	119	0	0	119
Hedging derivatives	0	132	0	0	132
Total fair value liabilities	**0**	**2,775**	**477**	**0**	**3,252**

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

Dec 2014 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	3	443	4	0	450
Available-for-sale financial assets	3,508	248	0	77	3,833
Financial assets held for trading	0	1,163	0	0	1,163
Hedging derivatives	0	546	0	0	546
Total fair value assets	**3,511**	**2,400**	**4**	**77**	**5,992**
Liabilities					
Financial liabilities designated at fair value through profit or loss	0	1,150	525	0	1,675
Financial liabilities held for trading	0	1,174	0	0	1,174
Valuation adjustment on interest rate risk hedged portfolios	0	196	0	0	196
Hedging derivatives	0	160	0	0	160
Total fair value liabilities	**0**	**2,680**	**525**	**0**	**3,205**

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

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

Movements between Level 1 and Level 2

In the first half 2015, two available-for-sale securities were moved from Level 1 to Level 2 due to subsequently illiquid market prices. Six available-for-sale securities were moved from Level 2 to Level 1 due to subsequently liquid market prices.

Movements in Level 3 financial instruments measured at fair value

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

in EUR million	Financial assets	Financial liabilities
Opening balance as of 01.01.2015	**4**	**525**
Valuation gains (losses) in profit or loss		
for assets held at the end of the period	1	(11)
for assets no longer held at the end of the period	(1)	0
Purchases	0	0
Redemptions	0	(37)
Sales	0	0
Foreign exchange differences	0	0
Transfers into or out of Level 3	0	0
Closing balance as of 30.06.2015	**4**	**477**

in EUR million	Financial assets	Financial liabilities
Opening balance as of 01.01.2014	**7**	**540**
Valuation gains (losses) in profit or loss		
for assets held at the end of the period	(2)	15
for assets no longer held at the end of the period	2	0
Purchases	0	0
Redemptions	(3)	(30)
Sales	0	0
Foreign exchange differences	0	0
Transfers into or out of Level 3	0	0
Closing balance as of 31.12.2014	**4**	**525**

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

In the first half 2015, the financial liabilities reported under Level 3 in 2014 decreased by a total of EUR 48 million, mainly due to redemptions.

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

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium is currently 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 and in detail on the credit rating development of the housing banks, with spread increases having a positive effect.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank; BAWAG P.S.K. had Level 3 financial assets recognized at their fair value in the amount of EUR 4 million as of 30 June 2015. 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 30 June 2015 would have increased by EUR 3 million (31 December 2014: EUR 4 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 30 June 2015 would have decreased by EUR 1 million (31 December 2014: minus EUR 1 million).

RISK REPORT

The Risk Management function within the Bank has the responsibility to identify, measure, limit, monitor and manage all risks the Bank is exposed to. At all organizational levels, Market and Risk functions are strictly separated.

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

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

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

- Commercial and Institutional Risk
- Controlling and ALM (Liquidity Risk)
- Corporate Workout and Portfolio Management
- Credit Risk Retail and Small Business
- Strategic Risk

The following risks are considered as material for BAWAG P.S.K. Group:

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

Furthermore, the risk self-assessment process which is conducted on an annual basis provides an overview of the Bank's risk position and the risk management of the individual risk types, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, their impact on the Bank as well as their coverage through existing risk management procedures. The quantification of these risks will be considered in the risk bearing capacity.

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

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

The Internal Capital Adequacy Process (ICAAP) and the concept of risk bearing capacity are parts of the Basel regulatory framework known as Pillar II. The related processes and methods ensure that the existing risk coverage capacity is adequate to cover any risks that may arise.

The risk bearing capacity is calculated on a monthly basis. Based on the external target rating of "A," which BAWAG P.S.K. Group aspires in the medium term, a confidence level of 99.9% is applied, which represents the probability of potential losses not exceeding the quantified risk. Limits are determined for all limit categories (and steering portfolios) as part of the risk strategy. Compliance with the limits is monitored in accordance with the defined monitoring processes on a monthly basis. If the defined warning levels are reached or the limits are exceeded, escalation processes are initiated.

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

- Credit risk is quantified by using the IRB approach. Additional capital surcharges are applied for concentration risk in connection with loans to major customers/to groups of affiliated customers, for the FX-induced credit risk as well as for the risk arising from credit lines not subject to capital requirements under legal regulations.

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

- Operational risk is quantified using a value-at-risk model.
- Other risks: This risk category includes participation risk, liquidity risk, macroeconomic risk, strategic risk, reputation risk, capital risk, compliance risk (including the risk from money laundering and terrorism financing) as well as market liquidity risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk according to the quantification method of the Austrian National Bank (OeNB) within the SREP process. The structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of spreads in connection with a notional spread widening on the market. For all other mentioned risk types, the required economic capital is quantified using simplified valuation models.

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

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

The link between the stress test program and capital management are formally defined within the internal risk and capital governance.

The capital levels defined within the capital planning process and monitored by the Capital Management Meeting are applied for the purpose of stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the internal stress tests, senior management reviews whether the capital ratios remain above the recovery levels even in stressed scenarios. A breach of the recovery levels needs to be justified with measures or measures need to be taken to improve the capital position sufficiently to exceed the recovery levels even under a stressed scenario. The ordinary procedure for capital contingencies is applicable in such a situation.

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

19 | Credit risk

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

Operations in the divisions that are responsible for credit risk are set up to ensure functional risk management expertise for both Corporate Lending and Investments as well as Retail Banking and Small Business customers. The Corporate Workout and Portfolio Management division has the lead responsibility in the Corporate Lending and Investments area for evaluating loan exposures as well as recommending potential exposure management strategies (and execution) for any existing or future corporate situations which might be placed on watch lists or have been transferred to workout status. The Strategic Risk division oversees the aggregation of the individual risk metrics, indicators and overall reporting. Furthermore, Strategic Risk is responsible for the development and validation of all credit risk models.

In Retail Banking and Small Business, the credit risk of private and small business customers is assessed via automated scorecards and via statistically developed scorecards. Furthermore, statistical models are used to assess the loss given default (LGD) as well as the expected utilization of the off-balance-sheet exposure value at the time of default (credit conversion factor, CCF).

For each commercial loan application, the borrower's credit rating is assessed using an internal rating method unique to each customer business segment. Specific risk categories are assigned to each customer and represent an individually estimated probability of default.

To manage overall concentration risk, exposure limits are defined, monitored and reported to the Managing Board and Supervisory Board on an ongoing basis. Furthermore, high standards are set with respect to credit risk methodologies and processes. New business is assessed along industry-specific underwriting guidelines with distinct credit metrics.

Business segment development in the first half 2015

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

Retail Banking and Small Business experienced further growth in mortgage products (+7%). Significant efforts were in place to enhance overall underwriting standards through automated and continuously enhanced underwriting models as well as strong collateral coverage. The Bank's new mortgage originations have an average LTV of 71% and an overall portfolio LTV of 65%.

Corporate Lending and Investments was characterized by proactive risk management, sustainable growth in stable domestic and international economies (i.e. Western Europe and North America) and maintaining a disciplined approach on risk-adjusted pricing. Consequently, exposures with unfavorable risk/return profiles (i.e. "Watch Loans") were actively managed and reduced within the Bank's early warning process.

The Treasury Services and Markets segment includes interest rate and currency risk positions as well as capital market activities and comprises the Group's portfolio of debt securities. The investment strategy continues to focus on investment grade securities predominantly representing unsecured and secured bonds of financials in core Europe and the United States as well as select sovereign bond exposures. During the first half 2015, Treasury Services and Markets moderately increased investment and designation in held-to-maturity securities, while at the same time reducing available-for-sale securities and fair value positions.

The Corporate Center is comprised primarily of the Bank's liquidity reserve and positive market values from derivatives and non-core participations. All central functions and Group Asset-Liability Management (ALM) activities are part of the Corporate Center.

In light of the strategic goal to fully exit the legacy portfolio, the Bank's CEE assets were further reduced in the first half 2015. The current CEE loan portfolio totals EUR 188 million with NPLs below EUR 8 million.

Credit risk and bonds by business segment

	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total portfolio[1]	
in EUR million	Jun 2015	Dec 2014	Jun 2015	Dec 2014	Jun 2015	Dec 2014	Jun 2015	Dec 2014	Jun 2015	Dec 2014
Book value	9,570	9,308	12,304	12,352	0	0	2,442	1,816	24,316	23,476
Bonds	0	7	1,295	1,465	5,171	5,755	255	818	6,721	8,045
Off-balance business	1,706	1,938	1,616	1,562	477	1,239	171	62	3,970	4,801
Total	**11,276**	**11,253**	**15,215**	**15,379**	**5,648**	**6,994**	**2,868**	**2,696**	**35,007**	**36,322**
thereof collateralized[2]	6,367	6,372	4,202	4,348	183	232	55	150	10,807	11,102
thereof NPL (incl. LLP, gross view)[3]	260	305	85	153	0	0	256	257	601	715
NPL ratio[3]	2.7%	3.2%	0.7%	1.2%	n/a	n/a	n/a	n/a	2.3%	2.8%
NPL coverage ratio[3]	92.9%	92.0%	98.4%	81.1%	n/a	n/a	n/a	n/a	60.2%	62.6%

1) As explained in Note 13, the held for sale position (BAWAG Malta Bank Limited) is not included. This applies to all tables in the Risk Report.
2) Economic collateral comprises residential and commercial real estate, guarantees, life insurance, etc.
3) Starting from June 2015, a revised definition for non-performing loans is applied. Loans are not included in NPLs if no economic loss is expected.

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

Jun 2015 in EUR million	Note 8 Loans and receivables (L&R)	Loans and bonds (not part of L&R)[1]	Risk view Total loans & bonds	Other assets	Segment report Total assets
Retail Banking and Small Business	9,570	0	9,570	186	9,756
Corporate Lending and Investments	12,942	657	13,599	45	13,644
Treasury Services and Markets	569	4,602	5,171	0	5,171
Corporate Center	2,441	255	2,697	2,529	5,226
Total	**25,523**	**5,514**	**31,037**	**2,761**	**33,798**

Dec 2014 in EUR million	Note 8 Loans and receivables (L&R)	Loans and bonds (not part of L&R)[1]	Risk view Total loans & bonds	Other assets	Segment report Total assets
Retail Banking and Small Business	9,308	7	9,315	264	9,579
Corporate Lending and Investments	13,115	702	13,817	68	13,885
Treasury Services and Markets	959	4,797	5,755	0	5,755
Corporate Center	1,898	736	2,634	2,798	5,432
Total	**25,280**	**6,242**	**31,521**	**3,129**	**34,651**

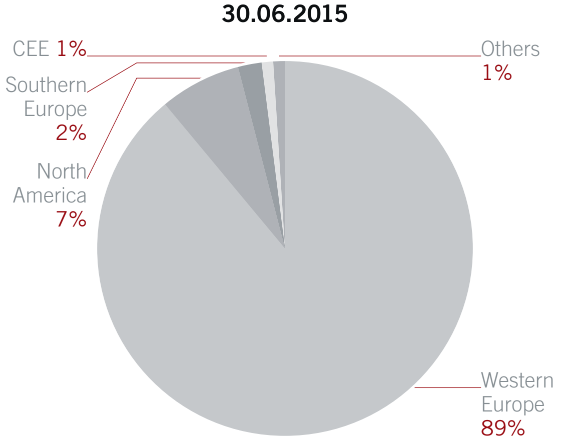
1) Shares and other variable-rate securities (Jun 2015: EUR 6 million, Dec 2014: EUR 7 million) are not included.

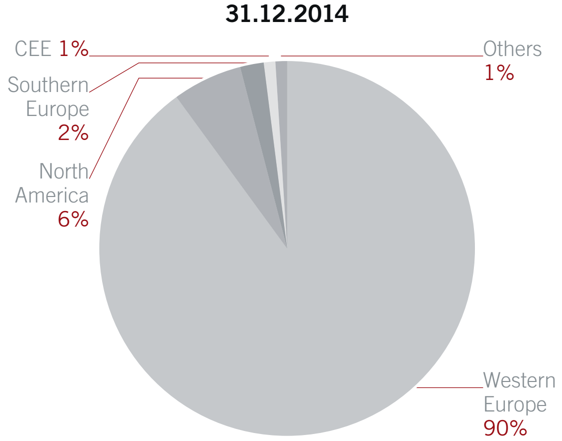
Geographical distribution of the loan and bond portfolio

The geographic distribution of the loan portfolio is in line with the Bank's strategy to focus on stable geographies and currencies. A total of 96% of the loan portfolio is located in Western Europe and North America[1)] and less than 1% in CEE.

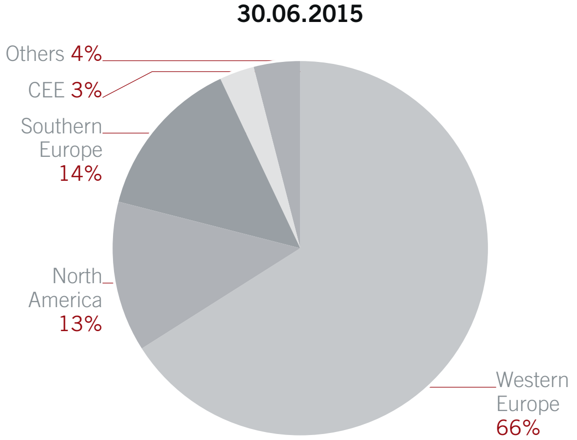
The geographic distribution of the bond portfolio is 79% in Western Europe and North America[2)], 14% in Southern Europe and 3% in CEE.

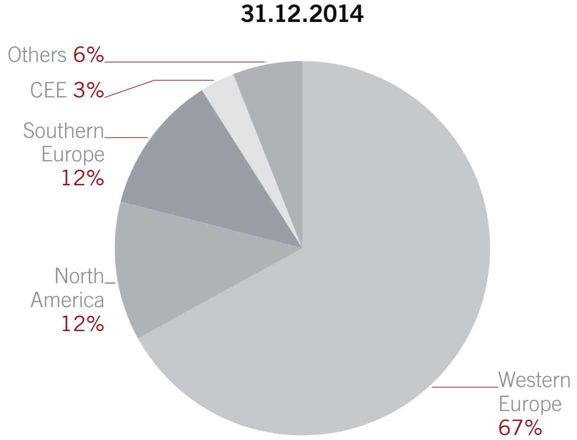
Geographical distribution of loans





Geographical distribution of bonds





Credit portfolio and bonds by currency

Consistent with the Bank's overall positioning, the majority of financing is denominated in EUR. The following table depicts the currency distribution of the credit portfolio and bond book of the Bank. Besides the volume in CHF which increased due to exchange rate fluctuations in the first quarter, the volumes of the currencies decreased analogously to the development of the total portfolio.

1) This includes Austria with 72% (Dec 2014: 72%), Germany with 7% (Dec 2014: 6%), the United States with 6% (Dec 2014: 6%), Great Britain with 3% (Dec 2014: 4%) and France with 2% (Dec 2014: 3%).
2) This includes Austria with 11% (Dec 2014: 13%), Great Britain with 12% (Dec 2014: 12%), the United States with 13% (Dec 2014: 12%), France with 7% (Dec 2014: 7%) and Germany with 5% (Dec 2014: 4%).

in EUR million	Book value Jun 2015	Book value Dec 2014	Relative value Jun 2015	Relative value Dec 2014
EUR	25,290	25,818	81.5%	81.9%
CHF	2,420	2,286	7.8%	7.3%
USD	2,116	2,240	6.8%	7.1%
GBP	1,089	1,058	3.5%	3.4%
Others	122	119	0.4%	0.4%
Total	**31,037**	**31,521**	**100.0%**	**100.0%**

Impaired loans

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

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

Automatic impairment provision
Loan-loss provisions are booked automatically by the core banking system in the case of unpaid balances. This occurs when limits are continuously exceeded on current accounts and / or when legal action is initiated.

General impairment provisions
A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on-and-off balance sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 30 June 2015, the IBNR portfolio impairment amounted to EUR 35.2 million (comprised of EUR 29.6 million for financial assets and EUR 5.6 million for off-balance sheet items – e.g. contractual liabilities and guarantees), versus EUR 37.8 million as of prior year-end.

Non-performing loans (NPLs)

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

Forbearance

Measures of forbearance or refinancing are extended if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. In this respect, strictly temporary measures – i.e. a reduction or postponement of payments as well as transfer to terms of interest only repayments – are in place. In exceptional cases, temporary or permanent reduction of interest rates may be granted. Depending on customer segments, a split of loan agreements or refinancing facilities may be accepted as viable measures.

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

Measures of forbearance are defined in line with the EBA technical standards adopted by the EC in 2015. Each individual forbearance measure is appropriately flagged in the relevant front-end system. Regulatory reporting on the stock of forbearance cases is performed quarterly in line with the EBA technical standards.

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, manual and automatic impairment provisions lead to the immediate default of the customer. All exposure-bearing products of customers considered to be in default are classified as non-performing loans.
2) Risk class 8 contains all customers that are classified as in default according to the CRR definition.

Risk concentrations by industry segment

	Book value		Relative value	
in EUR million	Jun 2015	Dec 2014	Jun 2015	Dec 2014
Government	2,461	2,343	18.1%	17.0%
Public Sector	2,091	1,871	15.4%	13.5%
Real Estate	1,804	2,185	13.3%	15.8%
Portfolio Financing	1,013	732	7.5%	5.3%
Services	883	635	6.5%	4.6%
Pharmaceuticals & Health Care	689	875	5.1%	6.3%
Hotel, Gaming & Leisure	618	427	4.5%	3.1%
Retail – Food	488	513	3.6%	3.7%
Commodity	375	407	2.8%	2.9%
Investment Funds	359	384	2.6%	2.8%
Retail – Non-food	341	359	2.5%	2.6%
Beverages, Food & Tobacco	335	337	2.5%	2.4%
Transport	330	305	2.4%	2.2%
Automotive	320	407	2.4%	2.9%
Telecommunication & Electronics	236	364	1.7%	2.6%
Wood & Paper	173	204	1.3%	1.5%
Construction & Building Materials	166	170	1.2%	1.2%
Engineering	154	128	1.1%	0.9%
Social Housing	151	161	1.1%	1.2%
Chemicals	139	92	1.0%	0.7%
Financial Institutions	121	417	0.9%	3.0%
Media	114	189	0.8%	1.4%
Utilities	105	186	0.8%	1.3%
Others	132	123	1.0%	0.9%
Total	**13,599**	**13,817**	**100.0%**	**100.0%**

20 | Market risk

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

The primary components of market risk for BAWAG P.S.K. Group result from interest rate risk and credit spreads.

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

BAWAG P.S.K. Group uses the VaR of an internal model to control and limit the market risk arising from trading activities. It includes the risk categories of interest rate, equity market and foreign exchange risk.

The VaR limits are supplemented by sensitivity limits and worst-case limits.

In the first half 2015, the average value-at-risk of the trading book was measured at minus EUR 0.72 million (first half 2014 average: minus EUR 0.23 million) and the value-at-risk on 30 June 2015 was measured at minus EUR 0.79 million (31 December 2014: minus EUR 0.32 million), based on a confidence interval of 99% and a holding period of one day. Active trading within the trading book is only performed on risk-mitigating measures.

CVA and DVA are considered as market risk and are calculated using an analytical model. CVA was measured on 30 June 2015 at minus EUR 6.49 million (31 December 2014: minus EUR 7.40 million). DVA was measured on 30 June 2015 at EUR 2.02 million (31 December 2014: EUR 2.26 million).

21 | 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). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The Risk 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 30-day rolling forecast that is updated daily, allowing for the close tracking and management of the short-term liquidity position. All measures are closely aligned with Controlling & Asset-Liability Management. Asset-Liability Management is responsible for planning and managing the mid- and long-term funding position. Any important decision on liquidity risk is made within the Strategic Asset Liability Committee, where all Managing Board members are represented.

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

The first half 2015 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.

22 | Operational risk

The Bank continues to apply the Standardized Approach to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the assessed risk under the Standardized Approach. The OpRisk RWAs are assigned as part of the Corporate Center segment.

For the purpose of internal economic steering (ICAAP), a statistical model is used to calculate the VaR that results from operational risk.

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

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

OWNER AND PUBLISHER

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