BAWAG Group

CONSOLIDATED INTERIM REPORT

Q1 2016

KEY FIGURES

Profit or loss statement (in EUR million)	**Q1 2016**	Q1 2015	Change (%)	Q4 2015	Change (%)
Net interest income	181.7	179.4	1.3	183.3	(0.9)
Net fee and commission income	50.9	50.5	0.8	41.1	23.8
Core revenues	**232.6**	**229.9**	**1.2**	**224.4**	**3.7**
Gains and losses on financial instruments and other operating income and expenses	17.7	34.8	(49.1)	27.7	(36.1)
Operating income	**250.3**	**264.7**	**(5.4)**	**252.1**	**(0.7)**
Operating expenses	**(104.4)**	**(120.2)**	**(13.1)**	**(129.9)**	**(19.6)**
Regulatory charges	(16.0)	(9.1)	75.8	(6.6)	>100
Total risk costs	(8.7)	(11.8)	(26.3)	(11.3)	(23.0)
Profit before tax	121.6	124.9	(2.6)	100.8	20.6
Income taxes	60.8	(13.7)	–	6.0	>100
Net profit	**182.3**	**111.2**	**63.9**	**106.8**	**70.7**

Performance ratios (figures annualized)	**Q1 2016**	Q1 2015	Change (pts)	Q4 2015	Change (pts)
Return on equity	**25.2%**	**16.7%**	**8.5**	**14.7%**	**10.5**
Return on tangible equity	**28.5%**	**19.0%**	**9.5**	**16.6%**	**11.9**
Return on risk-weighted assets	4.50%	2.69%	1.81	2.67%	1.83
Return on total assets	2.05%	1.28%	0.77	1.24%	0.81
Net interest margin	2.05%	2.06%	(0.01)	2.13%	(0.08)
Cost-income ratio	41.7%	45.4%	(3.7)	51.5%	(9.8)
Risk costs / loans and receivables	0.13%	0.18%	(0.05)	0.17%	(0.04)

Statement of financial position (in EUR million)	**Mar 2016**	Dec 2015	Change (%)	Mar 2015	Change (%)
Total assets	35,326	35,708	(1.1)	34,782	1.6
Financial assets	6,686	6,288	6.3	7,497	(10.8)
Customer loans and receivables	24,568	24,712	(0.6)	22,059	11.4
Customer deposits	21,075	21,692	(2.8)	20,614	2.2
Own issues	4,953	4,505	9.9	5,994	(17.4)
IFRS equity	3,133	2,956	6.0	2,715	15.4
IFRS tangible equity	2,804	2,628	6.7	2,385	17.6
Risk-weighted assets	16,168	16,269	(0.6)	16,286	(0.7)

Balance sheet ratios	**Mar 2016**	Dec 2015	Change (pts)	Mar 2015	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**14.0%**	**13.2%**	**0.8**	**13.6%**	**0.4**
Total capital ratio (fully loaded)	16.9%	16.1%	0.8	17.2%	(0.3)
Leverage ratio (fully loaded)	6.1%	6.5%	(0.4)	6.1%	0.0
Liquidity coverage ratio (LCR)	141%	137%	4	132%	9
NPL ratio	2.3%	2.1%	0.2	2.8%	(0.5)

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on page 21.

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LETTER FROM THE CEO

Dear Stakeholders,

After delivering record results in 2015, BAWAG P.S.K delivered a strong first quarter in 2016. The Bank achieved a net profit of EUR 182 million, a significant increase compared to the same period last year. From an operational standpoint, this improvement was driven by higher core revenues (+1%) as well as lower operating expenses (-13%) and risk costs (-26%). In addition, a positive one-time net tax benefit of EUR 61 million was recorded in the first quarter, which we expect to reverse over the course of the year. With a return on equity of 25% and a cost-income ratio of 42%, BAWAG P.S.K. ranks amongst the most profitable and efficient banks across Europe.

We continue to maintain a conservative risk profile with disciplined underwriting and focusing our business on developed markets in Austria and Western Europe. This is best reflected in a risk cost ratio of 13 basis points (down 5 basis points compared to the first quarter 2015) and an NPL ratio of 2.3%.

At the same time, we further strengthened our capital position during the first quarter, improving our fully loaded CET1 and total capital ratios by 80 basis points each to 14.0% and 16.9%, respectively. These ratios already take into account the deduction of a EUR 325 million dividend for 2015 which has not yet been fully distributed.

The investments in our retail franchise continue to pay off. We grew our market share in consumer lending to 10.7%, up 50 basis points from year-end 2015, representing net asset growth of 5.7%. Additionally, we made progress in migrating customers towards digital channels. During the first quarter 2016, 16% of our consumer loan sales were initiated online and 29% of our securities transactions were executed online.

easybank, our direct bank subsidiary, further executed on several strategic initiatives. The integration of our auto leasing platforms, together with various strategic partnerships, provides *easybank* with yet another platform to expand its market presence, brand awareness and best-in-class service offering to a range of new customers and segments. *easybank* is well positioned to build out its asset origination capabilities in auto leasing and consumer loans both domestically and internationally.

The successful transformation of the Bank in recent years was also externally validated by our second rating upgrade over the past year. In April 2016, Moody's again upgraded BAWAG P.S.K.'s long-term deposit, senior unsecured and issuer ratings by one notch to A3 from Baa1 and the outlook was maintained as "positive." Additionally, the Bank's standalone rating (baseline credit assessment) as well as its senior subordinate rating were upgraded to baa2 and Baa3 (investment grade for the first time), respectively.

The current rating upgrades make BAWAG P.S.K the highest rated bank in Austria by Moody's as well as one of the few "A" rated banks across Europe. According to Moody's, the rating upgrades reflect our stronger-than-anticipated recovery in profitability, the continued de-risking of its balance sheet as well as the continued build-up of the bank's capital adequacy ratios. The rating assessment indicates further upside potential for the stand-alone rating over a 12–18 month outlook horizon.

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

The continued strong results in the first quarter 2016 reiterate that BAWAG P.S.K. is well positioned to win in this competitive and evolving European banking landscape. We will continue to maintain our Austrian/developed market focused low-risk strategy while providing our customers with simple, transparent and best-in-class products and services. We are well on track to achieve or exceed our 2016 goals.

This success was only possible thanks to the dedication of our employees. I would like to take the opportunity to thank all of them as well as our customers and shareholders for their continuous support over the past months and years.

Byron Haynes
CEO and Chairman of the Managing Board of
BAWAG P.S.K. AG

Interim Group Management Report

FINANCIAL REVIEW

BAWAG P.S.K. continued to successfully execute on its business plans in the first quarter 2016 and delivered another quarter of strong results.

A few **key highlights** include:

- BAWAG P.S.K. posted a net profit of EUR 182.3 million in the first quarter 2016. This represents an increase of 63.9% compared to the same period in 2015, driven by higher core revenues, lower operating expenses and reduced risk costs. In addition, a positive one-time net tax benefit of EUR 60.8 million was captured in the first quarter, which we expect to reverse over the course of the year.
- The annualized return on equity was 25.2%, up 8.5 points versus the first quarter 2015. The annualized return on tangible equity amounted to 28.5%, up 9.5 points. Both figures are well ahead of our 2016 targets of 14% and 15%, respectively.
- Net interest income rose 1.3% to EUR 181.7 million in the first quarter 2016 versus the same period in 2015, despite a continued low-interest rate environment.
- The net interest margin remained stable at 2.05%, reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure.
- Our focus on cost efficiency continues to pay off. Operating expenses decreased by 13.1% to EUR 104.4 million in the first quarter 2016. The cost-income ratio further improved by 3.7 points to 41.7%.
- Regulatory charges comprising the bank levy as well as contributions to the deposit guarantee scheme and to the single resolution fund increased by 75.8% to EUR 16.0 million in the first quarter 2016.
- Total risk costs decreased by 26.3% to EUR 8.7 million in the first quarter 2016, 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 on a fully loaded basis) of 14.0% and 16.9%, respectively, at 31 March 2016, versus 13.2% and 16.1% at year-end 2015.

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in EUR million	**Q1 2016**	Q1 2015	Change (%)	Q4 2015	Change (%)
Interest income	263.0	273.2	(3.7)	262.1	0.3
Interest expense	(81.4)	(96.4)	(15.6)	(78.8)	3.3
Dividend income	0.1	2.6	(96.2)	0.1	–
Net interest income	**181.7**	**179.4**	**1.3**	**183.3**	**(0.9)**
Fee and commission income	73.6	74.9	(1.7)	75.3	(2.3)
Fee and commission expenses	(22.7)	(24.4)	(7.0)	(34.3)	(33.8)
Net fee and commission income	**50.9**	**50.5**	**0.8**	**41.1**	**23.8**
Core revenues	**232.6**	**229.9**	**1.2**	**224.4**	**3.7**
Gains and losses on financial instruments and other operating income and expenses[1)]	17.7	34.8	(49.1)	27.7	(36.1)
Operating income	**250.3**	**264.7**	**(5.4)**	**252.1**	**(0.7)**
Operating expenses	**(104.4)**	**(120.2)**	**(13.1)**	**(129.9)**	**(19.6)**
Regulatory charges	(16.0)	(9.1)	75.8	(6.6)	>100
Operating profit	**129.9**	**135.4**	**(4.1)**	**115.6**	**12.4**
Provisions and loan-loss provisions	(7.1)	(11.0)	(35.5)	(6.8)	4.4
Impairment losses	0.0	0.0	–	0.0	–
Operational risk	(1.6)	(0.8)	100	(4.5)	(64.4)
Share of the profit or loss of associates accounted for using the equity method	0.4	1.3	69.2	(3.6)	–
Profit before tax	**121.6**	**124.9**	**(2.6)**	**100.8**	**20.6**
Income taxes	60.8	(13.7)	–	6.0	>100
Profit after tax	**182.4**	**111.2**	**64.0**	**106.7**	**70.9**
Non-controlling interests	(0.1)	0.0	(100)	0.0	(100)
Net profit	**182.3**	**111.2**	**63.9**	**106.8**	**70.7**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 16.0 million for the first quarter 2016. However, the Bank's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

Net profit increased by EUR 71.7 million, or 63.9%, to EUR 182.3 million in the first quarter 2016. The increase was mainly driven by higher tax income due to the recognition of deferred tax assets on tax loss carryforwards as well as reduced operating expenses and loan-loss provisions, partly offset by higher regulatory charges.

Net interest income increased by EUR 2.3 million, or 1.3%, to EUR 181.7 million in the first quarter 2016.

Compared to the prior-year period, the **net interest margin** remained stable at 2.05%.

Net fee and commission income remained at a stable level and amounts to EUR 50.9 million compared to EUR 50.5 million in the first quarter 2015.

Gains and losses on financial instruments and other operating income and expenses decreased by EUR 17.1 million, or 49.1%, to EUR 17.7 million in the first quarter 2016, driven by higher gains from one-off sales in the first quarter 2015.

In line with our efficiency targets, we were able to reduce **operating expenses** by EUR 15.8 million, or 13.1%, to EUR 104.4 million in the first quarter 2016, driven by a decrease in personnel expenses and other administrative expenses.

The **cost-income ratio** improved by 3.7 points to 41.7% compared to the first quarter 2015.

Provisions and loan-loss provisions decreased by EUR 3.9 million, or 35.5%, to EUR 7.1 million in the first quarter 2016. **No impairment losses** occurred in the first quarter 2016.

Total assets

in EUR million	**Mar 2016**	Dec 2015	Change (%)	Mar 2015	Change (%)
Cash reserves	634	809	(21.6)	516	22.9
Financial assets	6,686	6,288	6.3	7,497	(10.8)
Available-for-sale	3,001	2,745	9.3	3,645	(17.7)
Held-to-maturity	2,313	2,290	1.0	2,187	5.8
Held for trading	1,119	950	17.8	1,288	(13.1)
Fair value through profit or loss	253	303	(16.5)	377	(32.9)
Loans and receivables	26,495	27,396	(3.3)	25,428	4.2
Customers	24,568	24,712	(0.6)	22,059	11.4
Debt instruments	912	973	(6.3)	1,791	(49.1)
Credit institutions	1,015	1,711	(40.7)	1,578	(35.7)
Hedging derivatives	685	468	46.4	574	19.3
Tangible non-current assets	61	63	(3.2)	77	(20.8)
Intangible non-current assets	329	329	–	330	(0.3)
Tax assets for current taxes	18	20	(10.0)	7	>100
Tax assets for deferred taxes	252	190	32.6	195	29.2
Other assets	166	134	23.9	158	5.1
Assets held for sale	–	9	(100)	–	–
Total assets	**35,326**	**35,708**	**(1.1)**	**34,782**	**1.6**

Financial assets increased by EUR 398 million, or 6.3%, to EUR 6,686 million as of 31 March 2016, mainly due to the purchase of bonds classified as available-for-sale.

Loans and receivables with customers remained stable at EUR 24,568 million compared to year-end 2015. As a result of lower short-term investments, **loans and receivables with credit institutions** decreased by EUR 696 million, or 40.7%, to EUR 1,015 million.

Tax assets for deferred taxes increased by EUR 62 million net, or 32.6%, to EUR 252 million, due to the recognition of deferred tax assets on tax loss carryforwards.

Total liabilities and equity

in EUR million	Mar 2016	Dec 2015	Change (%)	Mar 2015	Change (%)
Total liabilities	**32,192**	**32,751**	**(1.7)**	**32,067**	**0.4**
Financial liabilities	30,384	30,854	(1.5)	30,643	(0.8)
Fair value through profit or loss	1,185	1,269	(6.6)	1,682	(29.5)
Issued securities	1,185	1,269	(6.6)	1,682	(29.5)
Held for trading	1,033	1,071	(3.5)	1,713	(39.7)
At amortized cost	28,166	28,514	(1.2)	27,248	3.4
Customers	21,075	21,692	(2.8)	20,614	2.2
Issued securities	3,768	3,236	16.4	4,312	(12.6)
Credit institutions	3,323	3,586	(7.3)	2,322	43.1
Financial liabilities associated with transferred assets	472	621	(24)	–	100
Valuation adjustment on interest rate risk hedged portfolios	273	169	61.5	214	27.6
Hedging derivatives	113	106	6.6	161	(29.8)
Provisions	422	419	0.7	534	(21.0)
Tax liabilities for current taxes	6	6	–	14	(57.1)
Other obligations	522	576	(9.4)	501	4.2
Total equity	**3,134**	**2,957**	**6.0**	**2,715**	**15.4**
Shareholders' equity	3,133	2,956	6.0	2,715	15.4
Non-controlling interests	1	1	–	0	100
Total liabilities and equity	**35,326**	**35,708**	**(1.1)**	**34,782**	**1.6**

Deposits from customers decreased by EUR 617 million, or 2.8%, to EUR 21,075 million as of 31 March 2016. 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 increased by EUR 532 million, or 16.4%, to EUR 3,768 million as of 31 March 2016 primarily due to the issue of a EUR 500 million mortgage covered bond in February 2016.

Total equity increased by EUR 177 million, or 6.0%, to EUR 3,134 million as of 31 March 2016. The change was driven by the interim net profit for the first quarter.

CAPITAL AND LIQUIDITY POSITION

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. The Bank's fully loaded capital ratios have further improved since 31 December 2015 from 13.2% to 14.0% (CET1 capital ratio) and from 16.1% to 16.9% (total capital ratio) as of 31 March 2016. These ratios already take into account the deduction of a EUR 325 million dividend which has not yet been fully distributed. At the same time, we maintained an RWA density of 46%, a conservative ratio relative to our European peers.

Our funding strategy continues to be based on our stable customer deposits. Additionally, we issued another EUR 500 million international mortgage covered bond with a tenor of six years during the first quarter 2016, after already having placed a similar EUR 500 million benchmark transaction in October of last year. We maintain a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 141% at the end of the first quarter 2016.

KEY PERFORMANCE INDICATORS

in EUR million	**Q1 2016**	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	181.7	183.3	175.7	183.8	179.4
Net fee and commission income	50.9	41.1	42.9	51.4	50.5
Core revenues	232.6	224.4	218.7	235.2	229.9
Operating income	250.3	252.1	224.9	230.2	264.7
Operating expenses	(104.4)	(129.9)	(113.2)	(108.5)	(120.2)
Total risk costs	(8.7)	(11.3)	(9.9)	(13.0)	(11.8)
Profit before tax	121.6	100.8	90.5	102.3	124.9
Net profit	182.3	106.8	79.1	97.3	111.2

(figures annualized)	**Q1 2016**	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Return on equity	25.2%	14.7%	11.2%	14.1%	16.7%
Return on tangible equity	28.5%	16.6%	12.7%	16.1%	19.0%
Return on risk-weighted assets	4.50%	2.67%	2.01%	2.43%	2.69%
Return on total assets	2.05%	1.24%	0.94%	1.13%	1.28%
Net interest margin	2.05%	2.13%	2.10%	2.14%	2.06%
Cost-income ratio	41.7%	51.5%	50.3%	47.1%	45.4%
Risk costs / loans and receivables	0.13%	0.17%	0.16%	0.20%	0.18%

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on page 21.

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 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 first quarter, we further invested in the development of our operating model to ensure high-quality service for our customers. We continued to develop our sales front-end tool to support our systematic retail banking approach in our branches, automated our mortgage loan application process for brokers and continued to invest in sales force development. We also launched several new e-banking features enabling our customers to purchase our banking products and complete transactions in a simple manner anytime and anywhere.

First Quarter 2016 Business Review

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

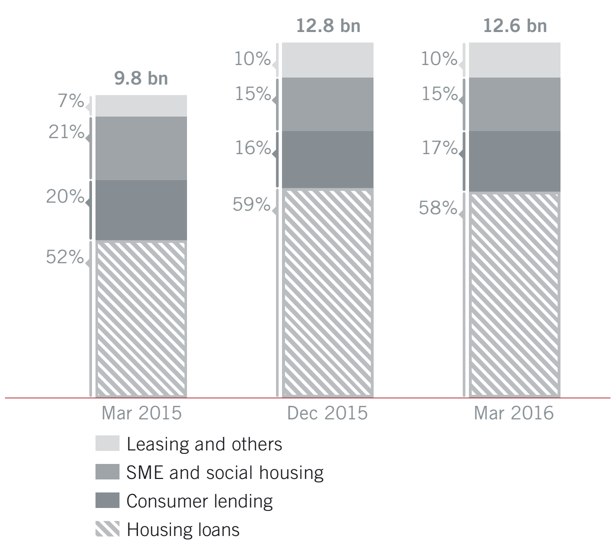
- Further expansion of our consumer loan franchise
- Stable funding from customer deposits with an optimized liability structure
- Driving sales productivity and optimizing product mix
- Continued shift-to-digital by enhancing our digital product and service offerings, and internal process simplification
- Expansion of *easybank*

Further expansion of our consumer loan franchise

During the first quarter 2016, we continued to grow our consumer loan franchise in absolute terms while also capturing market share. At the end of March, our consumer loan market share was 10.7%, up 50 basis points since year-end 2015 and 130 basis points since March 2015. New business loan originations during the first quarter were EUR 140 million, with net asset growth of 5.7%. These results were delivered while moderately increasing margins 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. Our continued investment in data analytics provides a stable flow of sales leads for our sales force for cross selling to current customers and new customer acquisition.

In addition to the continued growth in consumer loans, we made progress in the migration of our customers towards digital channels. 16% of our consumer loan sales are already initiated through our digital channels.

Retail Asset Volume Development

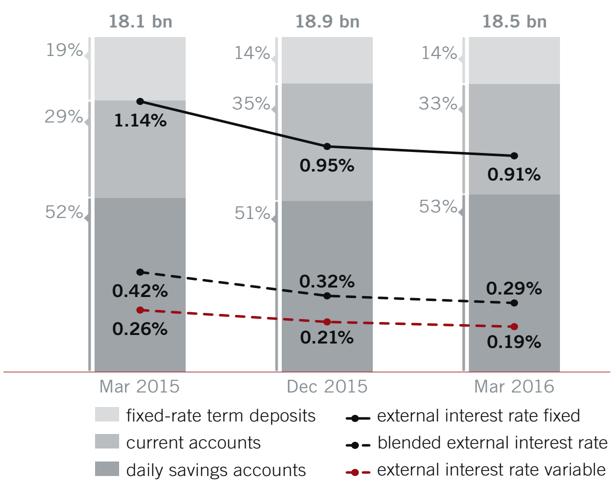


Retail assets stood at EUR 12.6 billion at the end of the first quarter 2016, down 1.7% compared to year-end 2015. While we saw a continued increase in housing and consumer loans, our international residential mortgage portfolio declined due to redemptions and FX rate changes.

Stable funding from customer deposits with an optimized liability structure

Our deposit base is driven by an ongoing shift from fixed-rate term deposits to current accounts and daily savings accounts, thus providing for lower funding costs, freeing up sales force capacity and providing our customers with a product with greater functionality.

Retail Customer Deposit Volume Development



Overall, the blended external interest rate on retail deposits stood at 0.29% at the end of the first quarter 2016, down 3 basis points since year-end 2015.

During the same period, customer deposits decreased by EUR 0.4 billion to EUR 18.5 billion as we actively managed the outflow of low-margin, 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 relationships. The continuous growth in our savings cards is also supported by increasing online demand.

Driving sales productivity and optimizing product mix

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 quarter 2016:

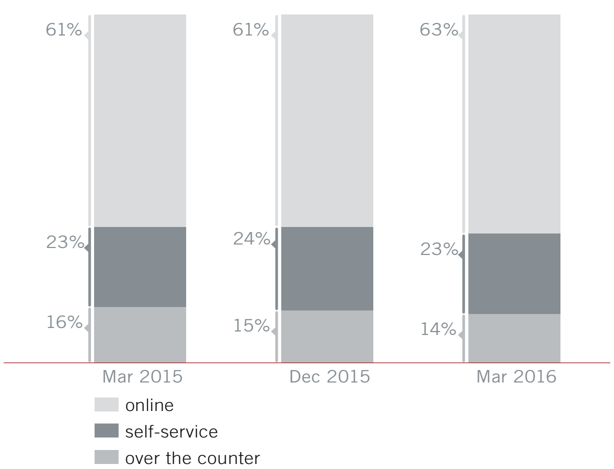
- Successful launch of the new generation of our KontoBoxes and the loyalty scheme DANKESCHÖN
- Continued development of our proprietary front-end and online tool "GATE"
- Ongoing shift of payment transactions to digital channels

In February 2016, we launched the new generation of our successful KontoBoxes, which offers our customers a series of enhanced services, such as a Gold Debit Card, mobile phone based payment functionality ("Debit Mobile") and in particular our new loyalty program DANKESCHÖN, which incentivizes the use of our products and payment cards. These value-added services will drive greater customer usage and represent a shift towards premium current accounts that provide greater functionality and an enhanced customer experience.

The launch of the new KontoBoxes has been supported by an intensive training program, including on-site training courses in our training branches and self-learning programs. In parallel with the roll-out of the KontoBoxes, we launched new functionality in our front-end tool GATE, supporting and automating in particular the sales process for current accounts: e.g., decision tree for proposing account models and automating the upgrading of old models.

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 online payment transactions increased from 61% in March 2015 to 63% in March 2016. During the same period, over-the-counter transactions decreased, reflecting the changing composition of overall payments and the migration to digital.

Payment Transactions per Channel



Continued shift-to-digital by enhancing our digital product and service offerings, and internal process simplification

During the first quarter, we continued to launch new online and mobile products and service offerings in order to make our full product range available via our digital channels and offer banking transactions to our clients as simple, quick and flexible self-service functionalities.

As part of the new generation of our current accounts, we also launched an online account ("Einfach Online Konto"). This attractively-priced product targets customers who bank primarily online and via self-service devices and can be opened via a 100% digital process, including an online identity verification and a digital signature. In addition, we launched our new SmartPay App, enabling payments via NFC-enabled smartphones.

Furthermore, we relaunched the BAWAG P.S.K. website in the first quarter 2016. The new design incorporates best practices in terms of usability and convenience with a stronger orientation towards product sales.

Expansion of *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, auto leases, security products and investment funds.

easybank's client base grew to 566,000 accounts through the first quarter 2016, up 2% since year-end 2015. At the same time, *easybank* increased its deposit volume to EUR 3.2 billion, up EUR 330 million from March 2015.

The integration of our auto leasing businesses as well as the strategic partnership *easybank* entered into with Shell gas stations provide *easybank* with yet another platform to expand its market presence, brand awareness and best-in-class service offering to a range of new customers and segments. *easybank* is well positioned to build out its asset origination capabilities in both consumer auto leasing and consumer loans.

Financial Results

Income metrics (in EUR million)	Q1 2016	Q1 2015	Change (%)	Q4 2015	Change (%)
Net interest income	109.9	94.1	16.8	104.5	5.2
Net fee and commission income	37.8	43.2	(12.5)	35.1	7.7
Core revenues	**147.7**	**137.3**	**7.6**	**139.6**	**5.8**
Gains and losses on financial instruments	4.4	7.5	(41.3)	1.9	>100
Other operating income and expenses	0.5	1.6	(68.8)	0.0	100
Operating income	**152.6**	**146.4**	**4.2**	**141.5**	**7.8**
Operating expenses	**(75.6)**	**(81.8)**	**(7.6)**	**(82.7)**	**(8.6)**
Total risk costs	(8.4)	(10.5)	(20.0)	(6.6)	27.3
Profit before tax (= net profit)	**68.6**	**54.1**	**26.8**	**52.2**	**31.4**

Key ratios	Q1 2016	Q1 2015	Change (pts)	Q4 2015	Change (pts)
Return on equity	33.4%	42.0%	(8.6)	30.2%	3.2
Return on risk-weighted assets	5.80%	6.26%	(0.46)	5.12%	0.68
Net interest margin	3.46%	3.89%	(0.43)	3.72%	(0.26)
Cost-income ratio	49.5%	55.9%	(6.4)	58.4%	(8.9)
Risk costs / loans and receivables	0.26%	0.44%	(0.18)	0.23%	0.03
NPL ratio	2.21%	3.24%	(1.03)	1.93%	0.28

Business volumes (in EUR million)	Mar 2016	Dec 2015	Change (%)	Mar 2015	Change (%)
Assets	12,600	12,822	(1.7)	9,792	28.7
Risk-weighted assets	4,708	4,756	(1.0)	3,492	34.8
Customer deposits	18,482	18,866	(2.0)	18,104	2.1

The segment achieved a net profit of EUR 68.6 million in the first quarter 2016 compared to EUR 54.1 million in the same period last year. This 26.8% increase was driven by higher core revenues (+7.6%) and lower operating expenses (-7.6%). The core revenues benefited from the acquisition of the Volksbank leasing business as well as the purchase of a high-quality performing residential mortgage portfolio during the fourth quarter 2015. The cost-income ratio improved to 49.5%, and overall risk costs reflect the high credit quality of the segment assets with a 2.2% NPL ratio and a risk cost ratio of 0.26%.

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.

The Austrian corporate business started the year 2016 with streamlined and rightsized processes in reaction to the changing market environment and customer requirements. We service our Austrian corporate and public sector customers with a full range of products focusing on financing, investment and payment servicing products and 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 despite the competitive landscape. At the same time, we have worked on developing new investment and FX products which differentiate our offerings from competitors in order to support fee income.

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.

First Quarter 2016 Business Review

Austrian Corporate Business

Overall commercial loan demand in Austria continued to be low in the first quarter 2016, mainly affecting the higher volume loans with shorter terms and resulting from several factors including flat domestic output, lower corporate investment as well as other macro risks across Europe. The lower demand and high liquidity available to banks led to further pressure on margins. 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 market trend. In the first quarter, the business recorded EUR 50 million of new lending in addition to normal renewals. Overall market share decreased slightly due to early redemptions of selected companies with either excess cash or using the competitive environment for cheaper refinancings.

Net fee and commission income – mainly arising from payment activities of our clients – was stable compared to the first quarter 2015.

International Business

We continued to focus on our loan origination opportunities primarily in selected developed Western countries and generated new business of EUR 730 million in the first quarter 2016.

Our **international corporate business** continued to be faced with early refinancings arising from competitive market conditions in a low interest rate environment. Together with a strong home currency, the portfolio experienced an asset volume decrease of 6% to EUR 3.4 billion in the first quarter 2016. 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 business was <4.0x and for the tranches BAWAG P.S.K. lends to <3.0x.

Our **international real estate financing business** increased the total asset volume to EUR 2.7 billion. 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 remained solid with some shortening of duration as loan amortizations increase ahead of original projections. We are also active in portfolio financing transactions with 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 >10%) and is structured to perform well even in stressed market conditions, offset by short average durations.

Financial Results

Income metrics (in EUR million)	Q1 2016	Q1 2015	Change (%)	Q4 2015	Change (%)
Net interest income	53.2	61.1	(12.9)	59.3	(10.3)
Net fee and commission income	9.7	9.9	(2.0)	9.7	–
Core revenues	**62.9**	**71.0**	**(11.4)**	**69.0**	**(8.8)**
Gains and losses on financial instruments	(1.4)	6.2	–	1.8	–
Other operating income and expenses	0.0	0.0	–	0.0	–
Operating income	**61.5**	**77.2**	**(20.3)**	**70.8**	**(13.1)**
Operating expenses	**(21.2)**	**(21.7)**	**(2.3)**	**(22.0)**	**(3.6)**
Total risk costs	(0.3)	(1.4)	(78.6)	(2.5)	(88.0)
Profit before tax (= net profit)	**40.0**	**54.1**	**(26.1)**	**46.3**	**(13.6)**

Key ratios	Q1 2016	Q1 2015	Change (pts)	Q4 2015	Change (pts)
Return on equity	13.8%	19.0%	(5.2)	15.4%	(1.6)
Return on risk-weighted assets	2.38%	2.83%	(0.45)	2.61%	(0.23)
Net interest margin	1.62%	1.76%	(0.14)	1.77%	(0.15)
Cost-income ratio	34.5%	28.1%	6.4	31.1%	3.4
Risk costs / loans and receivables	0.01%	0.04%	(0.03)	0.08%	(0.07)
NPL ratio	0.63%	1.01%	(0.38)	0.67%	(0.04)

Business volumes (in EUR million)	Mar 2016	Dec 2015	Change (%)	Mar 2015	Change (%)
Assets	13,087	13,188	(0.8)	13,827	(5.4)
Risk-weighted assets	6,595	6,827	(3.4)	7,630	(13.6)
Customer deposits (incl. other refinancing)	2,556	2,873	(11.0)	2,364	8.1

The segment contributed EUR 40.0 million to the Bank's net profit in the first quarter 2016 compared to EUR 54.1 million in the same period last year. This 26.1% decrease was driven by lower core revenues of EUR 62.9 million (down 11.4% compared to the first quarter 2015) and lower gains and losses on financial instruments (down EUR 7.6 million). Net interest income decreased by 12.9% to EUR 53.2 million compared to the first quarter 2015 due to refinancings and deleveraging of unprofitable exposures. During the same period, net fee and commission income remained stable at EUR 9.7 million.

Improved risk costs of EUR 0.3 million (EUR 1.4 million in the first quarter 2015) and an NPL ratio of 0.6% (down 0.4 points from March 2015) reflect positive impacts from our de-risking actions and the overall high credit quality of the assets.

TREASURY SERVICES AND MARKETS

First Quarter 2016 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 primarily representing secured and unsecured bonds of financials in core Europe and the United States as well as select sovereign bond exposures in order to maintain solid diversification.

During the first quarter 2016, Treasury Services and Markets kept investment and designation in held-to-maturity securities unchanged at EUR 2.3 billion as of 31 March 2016, while at the same time available-for-sale securities and fair value positions were reduced to EUR 1.9 billion. 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 31 March 2016, Treasury Services and Markets managed a total investment portfolio of EUR 4.4 billion. The portfolio's average maturity was 3.8 years, comprised 98% of investment grade-rated securities (100% investment grade issuer ratings) of which 78% were rated in the single A category or higher. Exposure to CEE represented less than 3% of the portfolio and was limited to select bonds, with 80% 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 China, Russia, Hungary or South-Eastern Europe as of 31 March 2016. Direct exposure to Asian and Latin American emerging markets represents not more than 1% of the portfolio and is denominated in hard currency with high credit quality (AA rating area). 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)	Q1 2016	Q1 2015	Change (%)	Q4 2015	Change (%)
Net interest income	14.1	12.9	9.3	14.8	(4.7)
Net fee and commission income	0.0	0.0	–	0.0	–
Core revenues	**14.1**	**12.9**	**9.3**	**14.8**	**(4.7)**
Gains and losses on financial instruments	(0.8)	1.2	–	12.9	–
Other operating income and expenses	0.0	0.0	–	0.0	–
Operating income	**13.3**	**14.1**	**(5.7)**	**27.7**	**(52.0)**
Operating expenses	**(4.2)**	**(5.1)**	**(17.6)**	**(4.3)**	**(2.3)**
Total risk costs	0.0	0.0	–	0.0	–
Profit before tax (= net profit)	**9.1**	**9.0**	**1.1**	**23.4**	**(61.1)**

Key ratios	Q1 2016	Q1 2015	Change (pts)	Q4 2015	Change (pts)
Return on equity	12.8%	12.6%	0.2	32.3%	(19.5)
Return on risk-weighted assets	2.21%	1.87%	0.34	5.49%	(3.28)
Net interest margin	1.26%	0.92%	0.34	1.25%	0.01
Cost-income ratio	31.6%	36.2%	(4.6)	15.5%	16.1

Business volumes (in EUR million)	**Mar 2016**	Dec 2015	Change (%)	Mar 2015	Change (%)
Assets	4,440	4,526	(1.9)	5,402	(17.8)
Risk-weighted assets	1,652	1,638	0.9	1,678	(1.5)

Core revenues in the first quarter 2016 rose to EUR 14.1 million, representing an increase of 9.3% compared to the same period in 2015. In spite of lower gains and losses from financial instruments, the net profit increased by 1.1% to EUR 9.1 million compared to the first quarter 2015.

Selective new investments and strategic sales supported a decrease of risk-weighted assets by 1.5% at the end of the first quarter 2016 compared to the first quarter 2015.

CORPORATE CENTER

First Quarter 2016 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. All regulatory charges (resolution fund, deposit guarantee scheme, bank levy), restructuring expenses, tax-related expenses and other one-off items are included in this segment.

The net profit change in the first quarter 2016 was mainly driven by:

- Recognition of deferred tax assets on tax loss carryforwards in the amount of EUR 90.3 million
- Increased regulatory charges comprising the bank levy as well as contributions to the deposit guarantee scheme and to the single resolution fund
- Lower operating expenses (restructuring costs in 2015).

The liquidity reserve and other assets remained largely stable during the reporting period. In terms of risk-weighted assets, more than half of the total amount relates to operational risk captured in the Corporate Center.

Financial Results

Income metrics (in EUR million)	**Q1 2016**	Q1 2015	Change (%)	Q4 2015	Change (%)
Net interest income	4.5	11.3	(60.2)	4.8	(6.3)
Net fee and commission income	3.4	(2.6)	–	(3.8)	–
Core revenues	**7.9**	**8.7**	**(9.2)**	**1.0**	**>100**
Gains and losses on financial instruments	14.8	15.0	(1.3)	19.9	(25.6)
Other operating income and expenses	0.2	3.2	(93.8)	(8.7)	–
Operating income	**22.9**	**26.9**	**(14.9)**	**12.2**	**87.7**
Operating expenses	**(3.4)**	**(11.6)**	**(70.7)**	**(20.9)**	**(83.7)**
Total risk costs	0.0	0.1	100	(2.0)	(100)
Regulatory charges	(16.0)	(9.1)	75.8	(6.7)	>100
Share of the profit or loss of associates accounted for using the equity method	0.4	1.3	(69.2)	(3.6)	–
Profit before tax	**3.9**	**7.7**	**(49.4)**	**(21.0)**	**–**
Income taxes	**60.8**	**(13.7)**	**–**	**6.0**	**>100**
Net profit	**64.6**	**(6.0)**	**–**	**(15.0)**	**–**

Volumes (in EUR million)	Mar 2016	Dec 2015	Change (%)	Mar 2015	Change (%)
Liquidity reserve and other assets	5,199	5,171	0.5	5,760	(9.7)
Risk-weighted assets	3,213	3,048	5.4	3,485	(7.8)
Own issues, equity and other liabilities	14,288	13,968	2.3	14,314	(0.2)

RISK MANAGEMENT

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

OUTLOOK

Our **key financial targets for 2016** – as outlined in our Consolidated Annual Report 2015 – are as follows:

- Net profit >EUR 450 million, return on equity >14% and return on tangible equity >15%
- Cost-income ratio <45%
- Fully loaded CET1 ratio >12%
- Fully loaded leverage ratio >5%

BAWAG P.S.K. has delivered strong results in the first quarter 2016. We anticipate that this positive trend will continue throughout the remainder of the year. All key financial targets are expected to be outperformed from today's perspective.

DEFINITIONS

Common Equity Tier 1 capital (CET1)	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Common Equity Tier 1 ratio	Common Equity Tier 1 capital (CET1) / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
IFRS equity	Equity attributable to the owners of the parent; excluding minorities
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets
Leverage ratio	Common Equity Tier 1 capital (CET1) / total exposure (calculation according to CRR, based on BAWAG Holding Group)
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 regulatory charges
Return on equity	Net profit / average IFRS equity (after the deduction of foreseeable dividends)
Return on risk-weighted assets	Net profit / average risk-weighted assets
Return on tangible equity	Net profit / average IFRS tangible equity (after the deduction of foreseeable dividends)
Return on total assets	Net profit / average total assets
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Holding Group, fully loaded)
Risk costs / loans and receivables	Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (including provisions)
RWA density	Risk-weighted assets / total assets
Total capital	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Total capital ratio	Total capital / risk-weighted assets

Consolidated Interim Financial Statements

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	Q1 2016	Q1 2015
Interest income		263.0	273.2
Interest expense		(81.4)	(96.4)
Dividend income		0.1	2.6
Net interest income	**[1]**	**181.7**	**179.4**
Fee and commission income		73.6	74.9
Fee and commission expenses		(22.7)	(24.4)
Net fee and commission income	**[2]**	**50.9**	**50.5**
Gains and losses on financial assets and liabilities	[3]	17.0	29.9
Other operating income and expenses		(15.3)	(4.2)
Operating expenses	[4]	(104.4)	(120.2)
Provisions and impairment losses	[5]	(8.7)	(11.8)
Share of the profit or loss of associates accounted for using the equity method		0.4	1.3
Profit before tax		**121.6**	**124.9**
Income taxes		60.8	(13.7)
Profit after tax		**182.4**	**111.2**
Thereof attributable to non-controlling interests		(0.1)	0.0
Thereof attributable to owners of the parent		**182.2**	**111.2**

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund) in the amount of EUR 16.0 million. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report. The regulatory expenses also include the total contributions to the single resolution fund for the year 2016.

The income taxes include the recognition of deferred tax assets on tax loss carryforwards in the amount of EUR 90.3 million based on the tax loss carryforwards at the level of BAWAG Holding GmbH in the amount of EUR 361 million resulting mainly from a tax goodwill amortization of EUR 76 million per year confirmed by the tax office in March 2016 for the periods 2010 and 2011. This effect is offset by net tax expenses in the amount of EUR 29.5 million.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	[Notes]	Q1 2016	Q1 2015
Profit after tax		**182.4**	**111.2**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gain/loss on defined benefit plans	[13]	(5.5)	(19.5)
Income tax on items that will not be reclassified		1.4	4.9
Total items that will not be reclassified to profit or loss		**(4.1)**	**(14.6)**
Items that may be reclassified subsequently to profit or loss			
Cashflow hedge reserve		7.1	–
Available-for-sale reserve		(6.1)	(3.0)
Income tax relating to items that may be reclassified		(1.9)	0.7
Total items that may be reclassified subsequently to profit or loss		**(0.9)**	**(2.3)**
Total comprehensive income, net of tax		**177.4**	**94.4**
Thereof attributable to non-controlling interests		0.1	0.0
Thereof attributable to owners of the parent		**177.3**	**94.4**

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	Mar 2016	Dec 2015
Cash reserves		634	809
Financial assets designated at fair value through profit or loss		253	303
Available-for-sale financial assets	[6]	3,001	2,745
Held-to-maturity investments		2,313	2,290
Financial assets held for trading	[7]	1,119	950
Loans and receivables	[8]	26,495	27,396
Customers		24,568	24,713
Credit institutions		1,015	1,710
Securities		912	973
Hedging derivatives		685	469
Property, plant and equipment		57	59
Investment properties		4	4
Goodwill		58	58
Brand name and customer relationships		166	168
Software and other intangible assets		105	103
Tax assets for current taxes		18	20
Tax assets for deferred taxes		252	190
Associates recognized at equity		43	43
Other assets		123	92
Assets in disposal groups		–	9
Total assets		**35,326**	**35,708**

The line items Goodwill, Brand name and customer relationships, and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 17 of this Consolidated Interim Report.

Total liabilities and equity

in EUR million	[Notes]	Mar 2016	Dec 2015
Total liabilities		**32,193**	**32,751**
Financial liabilities designated at fair value through profit or loss	[10]	1,185	1,269
Financial liabilities held for trading	[11]	1,033	1,071
Financial liabilities at amortized cost	[12]	28,166	28,514
Customers		21,075	21,692
Issued bonds, subordinated and supplementary capital		3,768	3,236
Credit institutions		3,323	3,586
Financial liabilities associated with transferred assets		472	621
Valuation adjustment on interest rate risk hedged portfolios		273	169
Hedging derivatives		113	106
Provisions	[13]	422	419
Tax liabilities for current taxes		6	6
Other obligations		522	576
Obligations in disposal groups		–	0
Total equity		**3,134**	**2,957**
Equity attributable to the owners of the parent		3,133	2,956
Non-controlling interests		1	1
Total liabilities and equity		**35,326**	**35,708**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Cashflow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2015	**100**	**1,086**	**1,410**	**107**	**–**	**(84)**	**2,619**	**–**	**2,619**
Transactions with owners	–	2	–	–	–	–	2	–	2
Owner's contribution	–	2	–	–	–	–	2	–	2
Total comprehensive income	–	–	111	(2)	–	(15)	94	–	94
Balance as of 31.03.2015	**100**	**1,088**	**1,521**	**105**	**–**	**(99)**	**2,715**	**–**	**2,715**
Balance as of 01.01.2016	**100**	**1,094**	**1,793**	**41**	**–**	**(72)**	**2,956**	**1**	**2,957**
Transactions with owners	–	–	–	–	–	–	–	–	–
Owner's contribution	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	182	(6)	5	(4)	177	0	177
Balance as of 31.03.2016	**100**	**1,094**	**1,975**	**35**	**5**	**(76)**	**3,133**	**1**	**3,134**

CONDENSED CASH FLOW STATEMENT

in EUR million	**Q1 2016**	Q1 2015
Cash and cash equivalents at end of previous period	**809**	**684**
Profit (after tax, before non-controlling interests)	182	111
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(162)	(38)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(183)	(496)
Interest receipts/paid	225	194
Dividend receipts	0	3
Net cash from operating activities	**62**	**(226)**
Cash receipt from sales of subsidiaries	91	105
Other net investing cash in/outflow	(316)	(37)
Net cash used in investing activities	**(225)**	**68**
Others	(12)	(10)
Net cash from financing activities	**(12)**	**(10)**
Cash and cash equivalents at end of period	**634**	**516**

Cash flow from the sale of subsidiaries

In the first quarter 2016, BAWAG P.S.K. sold its shares in BAWAG Malta Bank Ltd. after having received all regulatory approvals.

in EUR million	Q1 2016
Sales proceeds	**91**
Assets sold	**87**
Financial assets	9
Other assets	78
Debts sold	**0**
Net assets sold	**87**
Profit from the sale	**4**
Sales proceeds	91
Cash and cash equivalents contained in the assets sold	0
Proceeds from the sale	**91**

The profit from the sale is shown in the line item Gains and losses on financial assets and liabilities.

NOTES

From 2016, BAWAG P.S.K. will be presenting its quarterly reports on the BAWAG Holding Group level (throughout the document referred to as BAWAG P.S.K. unless stated otherwise).

The consolidated interim financial statements of BAWAG P.S.K. as of 31 March 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and adopted by the EU and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC).

These unaudited interim financial statements for the first quarter 2016 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 2015, with the exception of the following:

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

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

IAS 39 allows to designate parts of highly probable future cash flows as hedged item to cash flow hedge accounting. Therefore BAWAG P.S.K. applies a bottom layer approach designating the defined amounts of cash flows for a defined period of time as hedged item.

In other operating income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under “Cashflow hedge reserve”.

Therefore, in the first quarter 2016 fair value gains in the amount of EUR 7.1 million would have been presented in the line item “Gains and losses on financial instruments” in the income statement if BAWAG P.S.K. had not applied cash flow hedge accounting.

The following new interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2016, but have no material effect on the consolidated interim financial statements of BAWAG P.S.K.:

- Amendments to IAS 27 Separate Financial Statements
- Amendments to IAS 1 Presentation of Financial Statements
- Annual Improvements to IFRS (2012–2014 Cycle)
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- Amendments to IFRS 11 Joint Arrangements
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture

The valuation principles as of 31 December 2015 were applied again.

As of 31 March 2016, the Group consists of 32 (31 December 2015: 33) fully consolidated entities and 2 (31 December 2015: 2) entities that are accounted for using the equity method in Austria and abroad. In the first quarter of 2016, BAWAG Malta Bank Limited was sold and, thus, deconsolidated.

The interim financial statements for the first quarter 2016 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 2015, we refer to the Notes to the consolidated financial statements as of 31 December 2015.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 | Net interest income

in EUR million	Q1 2016	Q1 2015
Interest income	263.0	273.2
Interest expense	(81.4)	(96.4)
Dividend income	0.1	2.6
Net interest income	**181.7**	**179.4**

2 | Net fee and commission income

in EUR million	Q1 2016	Q1 2015
Fee and commission income	**73.6**	**74.9**
Payment transfers	41.9	42.2
Lending	7.4	5.8
Securities and custody business	10.0	16.8
Other	14.3	10.1
Fee and commission expenses	**(22.7)**	**(24.4)**
Payment transfers	(9.1)	(8.9)
Other	(13.6)	(15.5)
Net fee and commission income	**50.9**	**50.5**

3 | Gains and losses on financial assets and liabilities

in EUR million	Q1 2016	Q1 2015
Realized gains on sales of subsidiaries and securities	13.3	21.2
Fair value gains and losses	2.2	3.8
Gains (losses) from fair value hedge accounting	2.9	5.4
Others	(1.4)	(0.5)
Gains and losses on financial assets and liabilities	**17.0**	**29.9**

4 | Operating expenses

in EUR million	Q1 2016	Q1 2015
Staff costs	(57.9)	(64.4)
Other administrative expenses	(37.1)	(41.6)
Depreciation and amortization on tangible and intangible assets	(9.4)	(9.5)
Restructuring and other one-off expenses	0.0	(4.6)
Operating expenses	**(104.4)**	**(120.2)**

5 | Provisions and impairment losses

in EUR million	Q1 2016	Q1 2015
Loan-loss provisions and changes in provisions for off-balance credit risk	(7.0)	(11.0)
Provisions and expenses for operational risk	(1.7)	(0.8)
Impairment losses on financial assets	0.0	0.0
Provisions and impairment losses	**(8.7)**	**(11.8)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Available-for-sale financial assets

in EUR million	Mar 2016	Dec 2015
Bonds	**2,917**	**2,661**
Bonds of other issuers	2,407	2,320
Public sector debt instruments	510	341
Subsidiaries and other equity investments	**84**	**84**
Available-for-sale financial assets	**3,001**	**2,745**

7 | Financial assets held for trading

in EUR million	Mar 2016	Dec 2015
Derivatives in trading book	339	320
Derivatives in banking book	780	630
Financial assets held for trading	**1,119**	**950**

8 | Loans and receivables

Mar 2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Receivables from customers	**24,236**	**571**	**(175)**	**(63)**	**24,568**
thereof IBNR portfolio provision[1)]	0	0	0	(43)	(43)
Securities	**912**	**0**	**0**	**0**	**912**
Receivables from credit institutions	**1,015**	**0**	**0**	**0**	**1,015**
Total	**26,163**	**571**	**(175)**	**(63)**	**26,495**

1) Allowance for incurred but not reported losses.

Dec 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	**24,377**	**571**	**(170)**	**(65)**	**24,713**
thereof IBNR portfolio provision[1)]	0	0	0	(46)	(46)
Securities	**973**	**0**	**0**	**0**	**973**
Receivables from credit institutions	**1,710**	**0**	**0**	**0**	**1,710**
Total	**27,060**	**571**	**(170)**	**(65)**	**27,396**

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:

Mar 2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Retail Banking and Small Business	12,383	215	(140)	(20)	12,437
Corporate Lending and Investments	12,656	52	(35)	0	12,672
Treasury Services and Markets	171	0	0	0	171
Corporate Center	953	304	0	(43)	1,215
Total	**26,163**	**571**	**(175)**	**(63)**	**26,495**

Dec 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	12,604	215	(136)	(18)	12,665
Corporate Lending and Investments	12,613	53	(34)	0	12,632
Treasury Services and Markets	171	0	0	0	171
Corporate Center	1,672	303	0	(47)	1,928
Total	**27,060**	**571**	**(170)**	**(65)**	**27,396**

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

Receivables from customers – Breakdown by credit type

in EUR million	**Mar 2016**	Dec 2015
Loans	21,813	22,258
Current accounts	1,149	1,041
Finance leases	1,258	1,283
Cash advances	348	131
Receivables from customers	**24,568**	**24,713**

9 | Major differences between BAWAG P.S.K. Group and BAWAG Holding Group

Major differences between the consolidated financial statements of BAWAG P.S.K. Group as of 31 March 2015 and BAWAG Holding Group as of 31 March 2016 include the following major line items:

in EUR million	BAWAG P.S.K. Group Mar 2015	Delta	BAWAG Holding Group Mar 2016
Goodwill	1	57	58
Brand name and customer relationships	0	166	166
Deferred tax assets on tax losses carried forward	239	51	290
Amortization of brand name and customer relationships	0	(1.5)	(1.5)

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

in EUR million	Mar 2016	Dec 2015
Issued debt securities	1,061	1,121
Subordinated and supplementary capital	124	148
Financial liabilities designated at fair value through profit or loss	**1,185**	**1,269**

11 | Financial liabilities held for trading

in EUR million	Mar 2016	Dec 2015
Derivatives trading book	326	291
Derivatives banking book	707	780
Financial liabilities held for trading	**1,033**	**1,071**

12 | Financial liabilities measured at amortized cost

in EUR million	Mar 2016	Dec 2015
Deposits from banks	**3,323**	**3,586**
Deposits from customers	**21,075**	**21,692**
Savings deposits – fixed interest rates	2,209	2,363
Savings deposits – variable interest rates	4,611	4,556
Deposit accounts	5,562	5,490
Current accounts – Retail	6,138	6,488
Current accounts – Corporates	1,911	2,003
Other deposits[1)]	644	792
Issued bonds, subordinated and supplementary capital	**3,768**	**3,236**
Issued debt securities	3,336	2,821
Subordinated and supplementary capital	432	415
Financial liabilities measured at amortized cost	**28,166**	**28,514**

1) Primarily time deposits.

13 | Provisions

in EUR million	Mar 2016	Dec 2015
Provisions for social capital	394	390
Anticipated losses from pending business	24	24
Other items including legal risks	5	5
Provisions	**422**	**419**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. The change of the interest rate from 2.05% to 1.65% while adapting the expectations regarding future wage growth for retirees to rates observed in the recent past resulted in a net impact of minus EUR 4.1 million in other comprehensive income and minus EUR 1.0 million in profit or loss.

14 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

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

Dec 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	1,134	58	0	145
Securities	0	0	0	22	0
Other assets (incl. derivatives)	20	0	7	0	0
Financial liabilities – customers	0	0	13	155	11
Other liabilities (incl. derivatives)	0	0	0	2	0
Guarantees provided	0	0	0	0	2
Interest income	0.0	54.9	1.9	0.3	3.2
Interest expenses	0.0	0.0	0.1	2.3	0.0
Net fee and commission income	0.0	0.0	0.0	25.1	0.7

Information regarding natural persons

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

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
in EUR million	**Mar 2016**	**Mar 2016**	Dec 2015	Dec 2015
Current account deposits	5	1	4	1
Savings deposits	0	2	0	3
Loans	1	2	1	2

15 | Segment reporting

This information is based on the Group structure as of 31 March 2016.

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

The breakdown of the net interest income and its allocation to the segments in the management report is based on the principles of the market interest rate method, also taking into account allocated liquidity costs and premiums. According to this method, it is assumed that asset and liability items are refinanced by means of money and capital market transactions with corresponding maturities, and that there is therefore no interest rate risk. The interest rate risk is managed actively through asset and liability management, and the 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 (domestic and international), investment and insurance services, small business lending including our social housing activities, as well as leasing products. This segment also includes our 100% direct banking subsidiary *easybank*.

- **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 financing 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 Q1 2016	Retail Banking and Small Business Q1 2015	Corporate Lending and Investments Q1 2016	Corporate Lending and Investments Q1 2015	Treasury Services and Markets Q1 2016	Treasury Services and Markets Q1 2015	Corporate Center Q1 2016	Corporate Center Q1 2015	Total Q1 2016	Total Q1 2015
Net interest income	109.9	94.1	53.2	61.1	14.1	12.9	4.5	11.3	181.7	179.4
Net fee and commission income	37.8	43.2	9.7	9.9	0.0	0.0	3.4	(2.6)	50.9	50.5
Core revenues	**147.7**	**137.3**	**62.9**	**71.0**	**14.1**	**12.9**	**7.9**	**8.7**	**232.6**	**229.9**
Gains and losses on financial instruments	4.4	7.5	(1.4)	6.2	(0.8)	1.2	14.8	15.0	17.0	29.9
Other operating income and expenses	0.5	1.6	0.0	0.0	0.0	0.0	0.2	3.2	0.7	4.8
Operating income	**152.6**	**146.4**	**61.5**	**77.2**	**13.3**	**14.1**	**22.9**	**26.9**	**250.3**	**264.6**
Operating expenses	**(75.6)**	**(81.8)**	**(21.2)**	**(21.7)**	**(4.2)**	**(5.1)**	**(3.4)**	**(11.6)**	**(104.4)**	**(120.2)**
Regulatory charges	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)	(9.1)	(16.0)	(9.1)
Total risk costs	(8.4)	(10.5)	(0.3)	(1.4)	0.0	0.0	0.0	0.1	(8.7)	(11.8)
Share of the profit or loss of associates accounted for using the equity method	0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.3	0.4	1.3
Profit before tax	**68.6**	**54.1**	**40.0**	**54.1**	**9.1**	**9.0**	**3.9**	**7.7**	**121.6**	**124.9**
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0	60.8	(13.7)	60.8	(13.7)
Profit after tax	**68.6**	**54.1**	**40.0**	**54.1**	**9.1**	**9.0**	**64.7**	**(6.0)**	**182.4**	**111.2**
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	(0.1)	0.0
Net profit	**68.6**	**54.1**	**40.0**	**54.1**	**9.1**	**9.0**	**64.6**	**(6.0)**	**182.3**	**111.2**
Business volumes										
Assets	12,600	9,792	13,087	13,827	4,440	5,402	5,199	5,761	35,326	34,782
Risk-weighted assets[1)]	4,708	3,492	6,595	7,630	1,652	1,678	3,213	3,486	16,168	16,286

1) Based on a fully loaded basis.

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

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

in EUR million	Q1 2016	Q1 2015
Other operating income and expenses according to segment report	0.7	4.8
Regulatory charges	(16.0)	(9.1)
Other operating income and expenses according to consolidated profit or loss statement	**(15.3)**	**(4.2)**

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 and BAWAG Holding Group applying transitional rules and its own funds requirement as per 31 March 2016 and 31 December 2015 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	Promontoria		BAWAG Holding	
in EUR million	**Mar 2016[3)]**	Dec 2015	**Mar 2016[3)]**	Dec 2015
Share capital and reserves (including funds for general banking risk)	2,837	2,837	2,988	2,988
Foreseeable dividend for 2015	(286)	(286)	(313)	(313)
Deduction of intangible assets	(175)	(116)	(175)	(116)
Other comprehensive income	(38)	(33)	(38)	(33)
IRB risk provision shortfalls[1)]	(31)	(20)	(31)	(20)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(52)	(56)	(52)	(56)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences[2)]	(78)	(13)	(78)	(13)
Excess of deduction from AT1 items over AT1 capital	(127)	(189)	(127)	(189)
Common Equity Tier I	**2,050**	**2,124**	**2,174**	**2,248**
IRB risk provision shortfalls[1)]	(10)	(15)	(10)	(15)
Deduction of intangible assets	(117)	(174)	(117)	(174)
Excess of deduction from AT1 items over AT1 capital	127	189	127	189
Additional Tier I	**–**	**–**	**0**	**0**
Tier I	**2,050**	**2,124**	**2,174**	**2,248**
Supplementary and subordinated debt capital	471	477	471	477
Excess IRB risk provisions	9	16	9	16
Less significant investments, IRB risk provision shortfalls[1)]	(31)	(36)	(31)	(36)
Tier II	**449**	**457**	**449**	**457**
Own funds	**2,499**	**2,581**	**2,623**	**2,705**

1) March 2016: According to CRR, LLPs as of 31 December 2015 including disposals until 31 March 2016.
2) For the changes in deferred tax assets that rely on future profitability excluding those arising from temporary differences, please see the description on page 23.
3) Own funds as of 31 March 2016 differ from those as of 31 December 2015 inter alia because of different CRR transitional rules for 2016 and 2015 for the eligibility of capital (mainly available-for-sale-reserve) and deductions from own funds (mainly intangible assets and IRB risk provision shortfall).

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

	Promontoria		BAWAG Holding	
in EUR million	Mar 2016	Dec 2015	Mar 2016	Dec 2015
Credit risk	14,373	14,486	14,369	14,482
Market risk	100	97	100	97
Operational risk	1,633	1,620	1,633	1,620
Capital requirements (risk-weighted assets)	**16,106**	**16,203**	**16,102**	**16,199**

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

	Promontoria		BAWAG Holding[1)]	
	Mar 2016	Dec 2015	Mar 2016	Dec 2015
Common Equity Tier I capital ratio based on total risk	13.2%	12.4%	14.0%	13.2%
Total capital ratio based on total risk	16.1%	15.3%	16.9%	16.1%

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

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	Mar 2016	Dec 2015	Mar 2016	Dec 2015
Common Equity Tier I capital ratio based on total risk	12.7%	n/a	13.5%	n/a
Total capital ratio based on total risk	15.5%	n/a	16.3%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	13.8%	13.1%	14.6%	13.9%
Total capital ratio based on total risk (incl. interim profit)	16.7%	15.9%	17.5%	16.7%

17 | Fair value

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

in EUR million	Carrying amount Mar 2016	Fair value Mar 2016	Carrying amount Dec 2015	Fair value Dec 2015
Assets				
Cash reserves	634	634	809	809
Financial assets designated at fair value through profit or loss	253	253	303	303
Available-for-sale financial assets				
Recognized at fair value	2,921	2,921	2,665	2,665
Recognized at cost	80	n/a	80	n/a
Held-to-maturity investments	2,313	2,422	2,290	2,369
Financial assets held for trading	1,119	1,119	950	950
Loans and receivables	26,495	26,661	27,396	27,543
Hedging derivatives	685	685	469	469
Property, plant and equipment	57	n/a	59	n/a
Investment properties	4	6	4	6
Intangible non-current assets	329	n/a	329	n/a
Other assets	436	n/a	345	n/a
Assets in disposal groups	–	n/a	9	n/a
Total assets	**35,326**		**35,708**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,185	1,185	1,269	1,269
Financial liabilities held for trading	1,033	1,033	1,071	1,071
Financial liabilities designated at amortized cost	28,166	27,913	28,514	28,755
Financial liabilities associated with transferred assets	472	472	621	621
Valuation adjustment on interest rate risk hedged portfolios	273	273	169	169
Hedging derivatives	113	113	106	106
Provisions	422	n/a	419	n/a
Other obligations	528	n/a	582	n/a
Obligations in disposal groups	–	n/a	0	n/a
Equity	3,133	n/a	2,956	n/a
Non-controlling interests	1	n/a	1	n/a
Total liabilities and equity	**35,326**		**35,708**	

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

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

Securities recognized in line items Held to maturity investments and Loans and receivables are measured at amortized cost. Therefore, their book value does not include unrealized gains in the amount of EUR 147 million. Furthermore, own issues recognized in line item Financial liabilities designated at amortized cost do not include unrealized gains in the amount of EUR 245 million.

Fair value hierarchy

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

- **Level 1:** The value of financial instruments is measured using a quoted price without adjustment. This includes government bonds, bonds with quoted prices and exchange-traded derivatives.
- **Level 2:** The value is measured 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.

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

Mar 2016 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	3	248	2	0	253
Available-for-sale financial assets	2,843	73	4	80	3,001
Financial assets held for trading	0	1,119	0	0	1,119
Hedging derivatives	0	685	0	0	685
Total fair value assets	**2,846**	**2,126**	**6**	**80**	**5,058**
Liabilities					
Financial liabilities designated at fair value through profit or loss	0	731	454	0	1,185
Financial liabilities held for trading	0	1,033	0	0	1,033
Valuation adjustment on interest rate risk hedged portfolios	0	273	0	0	273
Hedging derivatives	0	113	0	0	113
Total fair value liabilities	**0**	**2,150**	**454**	**0**	**2,604**

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 2015 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	3	298	2	0	303
Available-for-sale financial assets	2,587	74	4	80	2,745
Financial assets held for trading	0	950	0	0	950
Hedging derivatives	0	469	0	0	469
Total fair value assets	**2,590**	**1,791**	**6**	**80**	**4,467**
Liabilities					
Financial liabilities designated at fair value through profit or loss	0	801	468	0	1,269
Financial liabilities held for trading	0	1,071	0	0	1,071
Valuation adjustment on interest rate risk hedged portfolios	0	169	0	0	169
Hedging derivatives	0	106	0	0	106
Total fair value liabilities	**0**	**2,147**	**468**	**0**	**2,615**

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

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

Movements between Level 1 and Level 2

In the first quarter 2016, one available-for-sale security was moved from Level 1 to Level 2 due to subsequent illiquid market prices. Three available-for-sale securities were moved from Level 2 to Level 1 due to subsequent 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 designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2016	**2**	**4**	**468**
Valuation gains (losses) in profit or loss	0	0	0
for assets held at the end of the period	0	0	2
for assets no longer held at the end of the period	0	0	0
Purchases	0	0	0
Redemptions	0	0	(16)
Sales	0	0	0
Foreign exchange differences	0	0	0
Transfers into or out of Level 3	0	0	0
Closing balance as of 31.03.2016	**2**	**4**	**454**

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2015	**4**	**0**	**525**
Valuation gains (losses) in line item gains and losses on financial assets and liabilities in profit or loss			
for assets held at the end of the period	1	0	(19)
for assets no longer held at the end of the period	(1)	0	0
Valuation gains (losses) in other comprehensive income			
for assets held at the end of the period	0	4	0
for assets no longer held at the end of the period	0	0	0
Purchases	0	0	0
Redemptions	(2)	0	(38)
Sales	0	0	0
Foreign exchange differences	0	0	0
Transfers into or out of Level 3	0	0	0
Closing balance as of 31.12.2015	**2**	**4**	**468**

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

In the first quarter 2016, the financial liabilities reported under Level 3 in 2015 decreased by a total of EUR 14 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 6 million as of 31 March 2016. If the credit spread used in calculating the fair value of own issues is increased by 20 basis points, the accumulated valuation result as of 31 March 2016 would have increased by EUR 2.7 million (31 December 2015: EUR 2.9 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 31 March 2016 would have decreased by EUR 1.8 million (31 December 2015: minus EUR 1.8 million).

RISK REPORT

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

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

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

- Commercial and Institutional Risk
- Retail Risk and Administration
- Strategic Risk
- International Retail Risk Management

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

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

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

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

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

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

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

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

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

- 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 a quantification method of the Austrian National Bank (OeNB). 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 Group-wide strategic risk management, capital management and planning processes of BAWAG P.S.K.

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

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

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

19 | Credit risk

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

The operative credit risk divisions are specifically set up to ensure functional risk management expertise for both the Commercial and Institutional and the Retail and Small Business customers. The strategic risk division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

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

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

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

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

Business segment development in the first quarter 2016

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.

In the first quarter 2016, Retail Banking and Small Business experienced further growth in consumer financing. 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 74% and an overall portfolio LTV of 65%.

Corporate Lending and Investments was characterized by proactive risk management, sustainable business 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 Bank's portfolio of debt securities. The investment strategy continues to focus on investment grade securities predominantly representing secured and unsecured bonds of financials in core Europe and the United States as well as select sovereign bond exposures.

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.

Credit risk and bonds by business segment

	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total portfolio	
in EUR million	**Mar 2016**	Dec 2015	**Mar 2016**	Dec 2015	**Mar 2016**	Dec 2015	**Mar 2016**	Dec 2015	**Mar 2016**	Dec 2015
Book value	12,437	12,665	12,077	11,982	0	0	1,222	1,935	25,736	26,582
Bonds	0	0	975	1,172	4,440	4,526	822	365	6,237	6,063
Off-balance business	1,870	1,839	1,161	1,332	945	381	703	386	4,180	3,937
Total	**14,307**	**14,504**	**14,213**	**14,486**	**5,385**	**4,907**	**2,747**	**2,686**	**36,153**	**36,582**
thereof collateralized[1)]	8,878	9,117	3,724	3,883	112	182	111	86	12,825	13,268
thereof NPL (incl. LLP, gross view)[2)]	278	248	80	85	0	0	255	256	612	588
NPL ratio[2)]	2.2%	1.9%	0.6%	0.6%	n/a	n/a	n/a	n/a	2.3%	2.1%
NPL coverage ratio[2)]	94.2%	97.6%	100.0%	100.0%	n/a	n/a	n/a	n/a	58.2%	58.3%

1) Economic collateral comprises residential and commercial real estate, guarantees, life insurance, etc.
2) 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.

Mar 2016 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	12,437	0	12,437	163	12,600
Corporate Lending and Investments	12,672	379	13,052	36	13,087
Treasury Services and Markets	171	4,269	4,440	0	4,440
Corporate Center	1,215	829	2,044	3,155	5,199
Total	**26,495**	**5,477**	**31,972**	**3,354**	**35,326**

Dec 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	12,665	0	12,665	157	12,822
Corporate Lending and Investments	12,631	522	13,154	35	13,188
Treasury Services and Markets	171	4,355	4,526	0	4,526
Corporate Center	1,928	371	2,300	2,871	5,171
Total	**27,396**	**5,249**	**32,645**	**3,062**	**35,708**

1) Shares and other variable-rate securities (Mar 2016: EUR 5 million, Dec 2015: EUR 5 million) are not included.

Geographical distribution of the loan and bond portfolio

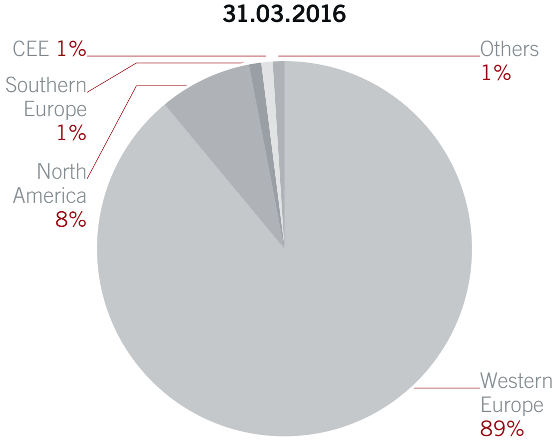
The geographic distribution of the loan portfolio is in line with the Bank's strategy to focus on stable geographies and currencies. A total of 97% of the loan portfolio is located in Western Europe and North America[1] with two thirds in Austria and less than 1% in CEE.

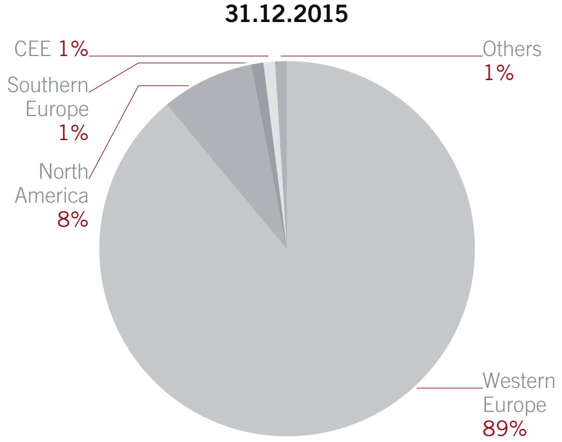
The geographic distribution of the bond portfolio is 81% in Western Europe and North America[2], 13% in Southern Europe and 2% in CEE.

1) This includes i.a. Austria with 65% (Dec 2015: 65%), Great Britain with 13% (Dec 2015: 14%), the United States with 8% (Dec 2015: 8%), Germany with 4% (Dec 2015: 4%) and France with 1% (Dec 2015: 1%)

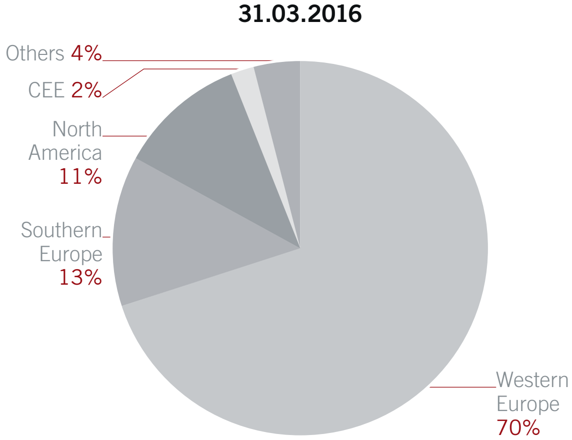
2) This includes i.a. Great Britain with 14% (Dec 2015: 13%), Austria with 12% (Dec 2015: 12%), the United States with 11% (Dec 2015: 14%), France with 8% (Dec 2015: 8%) and Germany with 4% (Dec 2015: 5%).

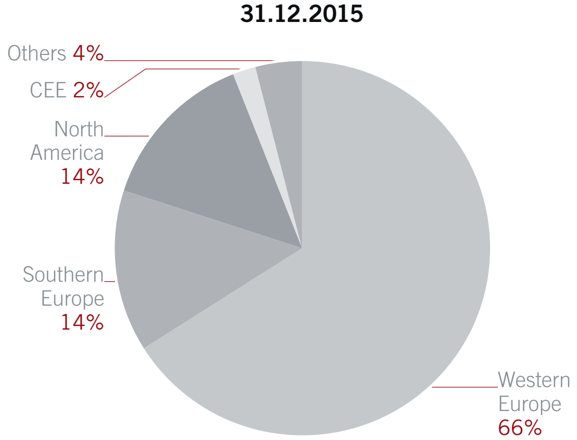
Geographical distribution of loans





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.

	Book value		Relative value	
in EUR million	**Mar 2016**	Dec 2015	**Mar 2016**	Dec 2015
EUR	24,141	24,204	75.5%	74.1%
GBP	3,379	3,775	10.6%	11.6%
USD	2,301	2,473	7.2%	7.6%
CHF	2,045	2,109	6.4%	6.5%
Others	106	86	0.3%	0.3%
Total	**31,972**	**32,647**	**100.0%**	**100.0%**

Impaired loans

Provisions are booked on loans for which the probability of full recovery is not fulfilled. The main components of the provisioning framework are shown in the following paragraphs. The volume reported as NPLs includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed[1)].

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

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

General impairment provisions
A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on- and off-balance sheet claims in the Bank's credit portfolio. This includes bonds, but not positions measured at fair value. As of 31 March 2016, the IBNR portfolio impairment amounted to EUR 47.5 million (comprised of EUR 42.6 million for financial assets and EUR 4.9 million for off-balance-sheet items – e.g. contractual liabilities and guarantees).

Non-performing loans (NPLs)

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

Forborne loans and forbearance measures

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

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

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

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

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

Risk concentrations by industry segment

	Book value		Relative value	
in EUR million	Mar 2016	Dec 2015	Mar 2016	Dec 2015
Government	2,542	2,342	19.5%	17.8%
Public Sector	1,715	1,733	13.1%	13.2%
Real Estate	1,665	1,521	12.8%	11.6%
Portfolio Financing	1,554	1,769	11.9%	13.4%
Pharmaceuticals & Health Care	700	759	5.4%	5.8%
Services	677	692	5.2%	5.3%
Hotel, Gaming & Leisure	470	465	3.6%	3.5%
Automotive	444	351	3.4%	2.7%
Retail – Non-food	434	462	3.3%	3.5%
Telecommunication & Electronics	369	367	2.8%	2.8%
Retail – Food	367	370	2.8%	2.8%
Commodity	331	298	2.5%	2.3%
Transport	326	318	2.5%	2.4%
Investment Funds	209	275	1.6%	2.1%
Engineering	177	163	1.4%	1.2%
Wood & Paper	170	172	1.3%	1.3%
Social Housing	142	142	1.1%	1.1%
Beverages, Food & Tobacco	135	239	1.0%	1.8%
Financial Institutions	118	124	0.9%	0.9%
Chemicals	111	126	0.8%	1.0%
Construction & Building Materials	101	138	0.8%	1.0%
Utilities	68	70	0.5%	0.5%
Media	61	94	0.5%	0.7%
Others	168	163	1.3%	1.2%
Total	**13,052**	**13,154**	**100.0%**	**100.0%**

20 | Market risk

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

The primary market risk components for BAWAG P.S.K. are interest rate and credit spread risk.

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

Active trading within the trading book is only performed to execute risk mitigating measures. The monitoring within the framework of ICAAP is carried out using a parametric VaR model. In the first quarter 2016, the average value-at-risk of the trading book was measured at minus EUR 0.53 million (first quarter 2015 average: minus EUR 0.71 million) and the value-at-risk as of 31 March 2016 was measured at minus EUR 0.52 million (31 December 2015: minus EUR 0.69 million), based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

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 controlled 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, in which all Managing Board members are represented.

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

The first quarter 2016 was characterized by a solid liquidity position reflected by stable core funding sources, a balanced term funding structure and a Liquidity Coverage Ratio (LCR) of 141%, with retail customers providing the majority of funding. Additionally, the Bank once again underpinned its capital markets strength by successfully placing an international EUR 500 million covered bond.

22 | Operational risk

The Bank continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to regulation (EU) No 575/2013 Article 317 to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The OpRisk RWAs are assigned to the Corporate Center segment.

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

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

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

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

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