BAWAG Group

CONSOLIDATED INTERIM REPORT

Q3 2016

KEY FIGURES

Profit or loss statement (in EUR million)	**Q3 2016**	Q3 2015	Change (%)	**Jan–Sep 2016**	Jan–Sep 2015	Change (%)
Net interest income	174.0	175.8	(1.0)	544.3	539.0	1.0
Net fee and commission income	43.1	42.9	0.5	146.1	144.8	0.9
Core revenues	**217.1**	**218.7**	**(0.7)**	**690.4**	**683.8**	**1.0**
Gains and losses on financial instruments and other operating income and expenses	21.0	6.2	>100	52.7	35.9	46.8
Operating income	**238.1**	**224.9**	**5.9**	**743.1**	**719.7**	**3.3**
Operating expenses	**(102.9)**	**(112.8)**	**(8.8)**	**(318.1)**	**(340.7)**	**(6.6)**
Regulatory charges	(5.9)	(12.9)	(54.3)	(39.8)	(29.7)	34.0
Total risk costs	(9.0)	(9.9)	(9.1)	(24.9)	(34.6)	(28.0)
Profit before tax	**122.2**	**90.6**	**34.9**	**366.5**	**317.8**	**15.3**
Income taxes	(25.9)	(11.5)	>100	13.5	(30.1)	–
Net profit	**96.3**	**79.1**	**21.7**	**379.8**	**287.7**	**32.0**

Performance ratios (figures annualized)	**Q3 2016**	Q3 2015	Change (pts)	**Jan–Sep 2016**	Jan–Sep 2015	Change (pts)
Return on equity	**13.0%**	**11.2%**	**1.8**	**16.9%**	**14.0%**	**2.9**
Return on tangible equity	**14.6%**	**12.7%**	**1.9**	**19.0%**	**15.9%**	**3.1**
Return on risk-weighted assets	2.44%	2.00%	0.44	3.12%	2.35%	0.77
Return on total assets	1.11%	0.94%	0.17	1.44%	1.13%	0.31
Net interest margin	2.01%	2.10%	(0.09)	2.07%	2.12%	(0.05)
Cost-income ratio	43.2%	50.2%	(7.0)	42.8%	47.3%	(4.5)
Risk costs / loans and receivables	0.14%	0.16%	(0.02)	0.12%	0.18%	(0.06)

Statement of financial position (in EUR million)	**Sep 2016**	Dec 2015	Change (%)	Sep 2015	Change (%)
Total assets	34,397	35,708	(3.7)	33,072	4.0
Financial assets	6,169	6,288	(1.9)	6,496	(5.0)
Customer loans and receivables	23,915	24,712	(3.2)	22,043	8.5
Customer deposits	22,722	21,692	4.7	20,902	8.7
Own issues	4,712	4,505	4.6	4,833	(2.5)
IFRS equity	3,027	2,956	2.4	2,861	5.8
IFRS tangible equity	2,690	2,628	2.4	2,530	6.3
Risk-weighted assets	15,953	16,535	(3.5)	15,800	1.0

Balance sheet ratios	**Sep 2016**	Dec 2015	Change (pts)	Sep 2015	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**15.7%**	**12.9%**	**2.8**	**14.8%**	**0.9**
Total capital ratio (fully loaded)	18.8%	15.8%	3.0	17.8%	1.0
Leverage ratio (fully loaded)	7.0%	5.8%	1.2	7.0%	0.0
Liquidity coverage ratio (LCR)	128%	137%	(9)	138%	(10)
NPL ratio	2.3%	2.1%	0.2	2.2%	0.1

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 27.

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LETTER FROM THE CEO

Dear Stakeholders,

BAWAG P.S.K. delivered strong results during the first three quarters of the year with a net profit of EUR 380 million, a significant increase compared to the same period last year. From an operating standpoint, this improvement was driven by higher operating income (up 3%), lower operating expenses (down 7%) and lower risk costs (down 28%). In addition, a positive one-time net tax benefit was recognized in the first quarter, which we expect to reverse by the end of the year. With a return on tangible equity of 19%, a cost-income ratio of 42.8% and a fully loaded CET1 ratio of 15.7%, BAWAG P.S.K. ranks amongst the most profitable, efficient and best capitalized banks across Europe.

We continue to maintain a conservative risk profile characterized by disciplined underwriting, low leverage and a business model focused on developed markets in Austria and Western Europe. This is best reflected in a risk cost ratio of 12 basis points and a low and stable NPL ratio of 2.3%.

At the same time, we further strengthened our capital position during the first three quarters, improving our fully loaded CET1 and total capital ratios to 15.7% (up 2.8 points from year-end) and 18.8% (up 3.0 points), respectively.

On November 7, 2016, BAWAG P.S.K. was rated by Fitch for the first time. The long-term issuer rating and the standalone rating were both set at "A-" with a stable outlook. The main rating drivers were, amongst others, a strong and experienced management team who has demonstrated a track record in realigning the Bank's business model following its restructuring, the conservative risk appetite and strong asset quality reflecting the focus on high-quality assets in developed markets, an established brand and strong retail franchise in Austria with a good performance record supported by a focus on cost control, general pricing discipline as well as a strong capitalization and performance in regulatory stress tests. This rating makes BAWAG P.S.K. the highest rated bank in Austria by Fitch and Moody's as well as one of the few banks with two ratings in the single A category across Europe.

The funding of the Bank continued to be based on our stable customer deposits, which represent two thirds of our funding base. Additionally, we issued two Swiss franc senior unsecured bonds with a total of CHF 275 million in October, with one issuance accounting for the lowest ever recorded yield of a newly issued financial bond in CHF on the Swiss financial market (minus 25 basis points). Furthermore, to gain access to direct GBP funding, BAWAG P.S.K. placed a GBP 500 million RMBS transaction backed by high-quality performing UK retail mortgages in early November (settlement on November 11), representing the first ever RMBS transaction by an Austrian bank.

The investments in our retail franchise continue to pay off. We grew our overall market share in consumer loans, one of our core retail products, to 11.4%, up 120 basis points from year-end 2015, representing net asset growth of 10.0%. In terms of acquisitions, we recently announced the purchase of start:bausparkasse, a large Austrian savings and loan association, combined with IMMO-Bank. This transaction will grow our domestic retail footprint, extend our expertise in building society savings and loans and result in a significant increase in the financing volume with real estate companies and social housing associations.

BAWAG P.S.K. Retail recorded new originations of EUR 880 million in the first three quarters 2016. In addition to growing our consumer loan franchise and further optimizing our product mix, we continued to make progress in transforming to digital and driving transactional productivity. As an example of the growing digital influence, more than 20% of our consumer loan sales were initiated online. Our mobile banking services continued to experience high growth rates, with mobile banking usage up 20% over the past year and over 7 million customer logins per month. Overall, more than 80% of all transactions were completed online or through self-service machines, highlighting the significant shift in customer behavior that is taking place.

easygroup, comprising Austria's #1 direct bank *easybank*, our auto and mobile leasing business, and our international residential mortgage portfolios, further increased its customer base and executed on several strategic initiatives. The integration of our auto leasing platforms, together with various strategic partnerships, provides easygroup with yet another platform to expand its market presence, brand awareness and best-in-class service offering to a range of new customers and segments. During the first three quarters 2016, we recorded strong originations of EUR 277 million in consumer auto leasing, up 12% compared to the prior year. In July, we entered into a partnership with *Autogott*, Austria's leading online car sales channel. In addition, we successfully launched our new brand *easyleasing* in September. *easyleasing* will become our "one brand and one face" to the leasing market in Austria. By combining best-in-class practices from both BAWAG P.S.K. Leasing and Volksbank Leasing, we have created a highly efficient, customer-focused organization. Overall, easygroup is well positioned to further build out its asset origination capabilities in auto leasing and consumer loans, both domestically and internationally.

The focus of the DACH Corporates & Public Sector business continues to be on maintaining and acquiring sustainable customer relationships, while staying disciplined on pricing despite the competitive landscape. Our International Business segment continues to be focused on international corporate, real estate and portfolio financing outside the DACH region, serviced from our London branch office. Both DACH Corporates & Public Sector as well as International Business maintained their disciplined approach to originating new business with appropriate risk-adjusted returns in a highly competitive environment. Overall, the businesses originated EUR 1.9 billion of new business, despite the muted loan demand.

In July 2016, *Euromoney*, one of the leading magazines for banking, finance and capital market issues, elected BAWAG P.S.K. as "Austria's Best Bank 2016." The decision stated that BAWAG P.S.K. was "the standout story of the year" and highlighted its "sector-beating return on equity," efficiency and solid capitalization. After having received *The Banker*'s "Bank of the Year 2015" award for Austria in December 2015, we are again proud to be recognized for the Bank's successful turnaround.

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 three quarters 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 Austria- and 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 targets.

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 three quarters 2016 and delivered another quarter of strong results.

A few **key highlights** include:

- BAWAG P.S.K. posted a net profit of EUR 379.8 million in the first three quarters 2016. This represents an increase of 32.0% 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 was recognized in the first quarter, which we expect to reverse by the end of the year.

- The return on equity was 16.9%, up 2.9 points versus the first three quarters 2015. The return on tangible equity amounted to 19.0%, up 3.1 points. Both figures are well ahead of our 2016 targets of 14% and 15%, respectively.

- Net interest income rose 1.0% to EUR 544.3 million in the first three quarters 2016 versus the same period in 2015, despite a continued low-interest rate environment.

- The net interest margin remained largely stable at 2.1%, 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 6.6% to EUR 318.1 million in the first three quarters 2016. The cost-income ratio further improved by 4.5 points to 42.8%.

- Regulatory charges, mainly comprising the bank levy as well as contributions to the deposit guarantee scheme and to the single resolution fund, increased by 34.0% compared to the first three quarters 2015, coming in at EUR 39.8 million in the first three quarters 2016.

- Total risk costs decreased by 28.0% to EUR 24.9 million in the first three quarters 2016, resulting from the improved overall credit quality of the individual business segments.

- 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 15.7% and 18.8%, respectively, at 30 September 2016, versus 12.9% and 15.8% at year-end 2015.

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in EUR million	**Q3 2016**	Q3 2015	Change (%)	**Jan–Sep 2016**	Jan–Sep 2015	Change (%)
Interest income	252.3	256.5	(1.6)	775.0	789.2	(1.8)
Interest expense	(78.3)	(81.5)	(3.9)	(232.6)	(260.4)	(10.7)
Dividend income	0.0	0.8	(100)	1.9	10.2	(81.4)
Net interest income	**174.0**	**175.8**	**(1.0)**	**544.3**	**539.0**	**1.0**
Fee and commission income	64.4	67.3	(4.3)	205.2	216.9	(5.4)
Fee and commission expenses	(21.3)	(24.4)	(12.7)	(59.1)	(72.1)	(18.0)
Net fee and commission income	**43.1**	**42.9**	**0.5**	**146.1**	**144.8**	**0.9**
Core revenues	**217.1**	**218.7**	**(0.7)**	**690.4**	**683.8**	**1.0**
Gains and losses on financial instruments and other operating income and expenses[1)]	21.0	6.2	>100	52.7	35.9	46.8
Operating income	**238.1**	**224.9**	**5.9**	**743.1**	**719.7**	**3.3**
Operating expenses[1)]	**(102.9)**	**(112.8)**	**(8.8)**	**(318.1)**	**(340.7)**	**(6.6)**
Regulatory charges	(5.9)	(12.9)	(54.3)	(39.8)	(29.7)	34.0
Operating profit	**129.3**	**99.2**	**30.3**	**385.2**	**349.3**	**10.3**
Provisions and loan-loss provisions	(8.2)	(8.3)	(1.2)	(20.9)	(31.2)	(33.0)
Impairment losses	0.0	0.0	–	(0.8)	0.0	100
Operational risk	(0.8)	(1.6)	(50.0)	(3.2)	(3.4)	(5.9)
Share of the profit or loss of associates accounted for using the equity method	1.9	1.3	46.2	6.2	3.1	100
Profit before tax	**122.2**	**90.6**	**34.9**	**366.5**	**317.8**	**15.3**
Income taxes	(25.9)	(11.5)	>100	13.5	(30.1)	–
Profit after tax	**96.3**	**79.1**	**21.7**	**380.0**	**287.7**	**32.1**
Non-controlling interests	0.0	0.0	–	(0.2)	0.0	100
Net profit	**96.3**	**79.1**	**21.7**	**379.8**	**287.7**	**32.0**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 38.5 million for the first three quarters 2016. The item Operating expenses includes regulatory charges in the amount of EUR 1.3 million for the first three quarters 2016 as well. However, the Bank's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

Net profit increased by EUR 92.1 million, or 32.0%, to EUR 379.8 million in the first three quarters 2016. The increase was driven by higher operating income, lower operating expenses and lower risk costs as well as tax income resulting from the recognition of deferred tax assets on tax loss carryforwards. These positive developments offset the increase in regulatory charges.

Net interest income increased by EUR 5.3 million, or 1.0%, to EUR 544.3 million in the first three quarters 2016. Compared to the prior-year period, the **net interest margin** remained largely stable at 2.1%.

Net fee and commission income was up 0.9% and amounted to EUR 146.1 million.

Gains and losses on financial instruments and other operating income and expenses increased by EUR 16.8 million, or 46.8%, to EUR 52.7 million in the first three quarters 2016 resulting from higher fair value gains, partially offset by lower gains from the sale of subsidiaries compared to the prior-year period.

Operating expenses decreased by EUR 22.6 million, or 6.6%, to EUR 318.1 million in the first three quarters 2016, driven by a decrease in personnel expenses and other administrative expenses. This figure includes a EUR 18.6 million restructuring reserve posted during the first three quarters of the year. The **cost-income ratio** decreased by 4.5 points to 42.8% compared to the first three quarters 2015.

Provisions and loan-loss provisions decreased by EUR 10.3 million, or 33.0%, to EUR 20.9 million in the first three quarters 2016.

Total assets

in EUR million	**Sep 2016**	Dec 2015	Change (%)	Sep 2015	Change (%)
Cash reserves	836	809	3.3	520	60.8
Financial assets	6,169	6,288	(1.9)	6,496	(5.0)
Available-for-sale	2,986	2,745	8.8	3,006	(0.7)
Held-to-maturity	2,163	2,290	(5.5)	2,227	(2.9)
Held for trading	817	950	(14.0)	965	(15.3)
Fair value through profit or loss	203	303	(33.0)	299	(32.1)
Loans and receivables	25,815	27,396	(5.8)	24,713	4.5
Customers	23,915	24,712	(3.2)	22,043	8.5
Debt instruments	815	973	(16.2)	1,089	(25.2)
Credit institutions	1,085	1,711	(36.6)	1,580	(31.3)
Hedging derivatives	841	468	79.7	485	73.4
Tangible non-current assets	58	63	(7.9)	63	(7.9)
Intangible non-current assets	337	329	2.4	330	2.1
Tax assets for current taxes	7	20	(65.0)	15	(53.3)
Tax assets for deferred taxes	204	190	7.4	200	2.0
Other assets	130	134	(3.0)	123	5.7
Assets held for sale	–	9	(100)	126	(100)
Total assets	**34,397**	**35,708**	**(3.7)**	**33,072**	**4.0**

Financial assets remained stable compared to year-end, amounting to EUR 6,169 million as of 30 September 2016.

Loans and receivables with customers decreased by EUR 797 million, or 3.2%, to EUR 23,915 million as of 30 September 2016, mainly due to early redemptions and FX rate changes in our international loan portfolio.

Tax assets for deferred taxes increased by EUR 14 million net, or 7.4%, to EUR 204 million due to the recognition of deferred tax assets on tax loss carryforwards.

Total liabilities and equity

in EUR million	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Total liabilities	**31,368**	**32,751**	**(4.2)**	**30,211**	**3.8**
Financial liabilities	29,828	30,854	(3.3)	28,991	2.9
Fair value through profit or loss	1,068	1,269	(15.8)	1,578	(32.3)
Issued securities	1,068	1,269	(15.8)	1,578	(32.3)
Held for trading	807	1,071	(24.6)	1,184	(31.8)
At amortized cost	27,953	28,514	(2.0)	26,230	6.6
Customers	22,722	21,692	4.7	20,902	8.7
Issued securities	3,644	3,236	12.6	3,255	12.0
Credit institutions	1,587	3,586	(55.7)	2,072	(23.4)
Financial liabilities associated with transferred assets	–	621	(100)	–	–
Valuation adjustment on interest rate risk hedged portfolios	327	169	93.5	166	97.0
Hedging derivatives	217	106	>100	124	75.0
Provisions	421	419	0.5	429	(1.9)
Tax liabilities for current taxes	5	6	(16.7)	24	(79.2)
Other obligations	570	576	(1.0)	475	20.0
Obligations in disposal groups held for sale	–	–	–	2.0	(100)
Total equity	**3,029**	**2,957**	**2.4**	**2,861**	**5.9**
Shareholders' equity	3,027	2,956	2.4	2,861	5.8
Non-controlling interests	2	1	100	0	100
Total liabilities and equity	**34,397**	**35,708**	**(3.7)**	**33,072**	**4.0**

Deposits from customers increased by EUR 1,030 million, or 4.7%, to EUR 22,722 million as of 30 September 2016. The increase mainly results from higher deposit account balances.

Issued securities at amortized cost increased by EUR 408 million, or 12.6%, to EUR 3,644 million as of 30 September 2016, primarily due to the issue of a EUR 500 million mortgage covered bond in February 2016.

Total equity increased by EUR 72 million, or 2.4%, to EUR 3,029 million as of 30 September 2016. The change was driven by the interim net profit for the first three quarters 2016, partially offset by a dividend payment made to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding.

CAPITAL AND LIQUIDITY POSITION

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. The fully loaded capital ratios have further improved since 31 December 2015, with the CET1 ratio increasing from 12.9% to 15.7% (up 2.8 points) and the total capital ratio increasing from 15.8% to 18.8% (up 3.0 points) as of 30 September 2016. 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, which represent two thirds of our funding base. In addition to our growing deposit base, we issued a EUR 500 million mortgage covered bond in the first half 2016 and recently issued two Swiss franc senior unsecured bonds with a total of CHF 275 million in October, with one issuance representing the lowest ever recorded yield of a newly issued financial bond in CHF (minus 25 basis points). Furthermore, to gain access to direct GBP funding, BAWAG P.S.K. placed a GBP 500 million RMBS transaction backed by high-quality performing UK retail mortgages in early November (settlement on November 11), representing the first ever RMBS transaction by an Austrian bank.

BAWAG P.S.K. maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 128% at the end of the third quarter 2016.

KEY PERFORMANCE INDICATORS

in EUR million	**Q3 2016**	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Net interest income	174.0	188.6	181.7	183.3	175.8
Net fee and commission income	43.1	52.1	50.9	41.1	42.9
Core revenues	217.1	240.7	232.6	224.4	218.7
Operating income	238.1	254.7	250.3	252.1	224.9
Operating expenses	(102.9)	(111.2)	(104.0)	(129.5)	(112.8)
Total risk costs	(9.0)	(7.2)	(8.7)	(11.3)	(9.9)
Profit before tax	122.2	122.7	121.6	100.8	90.6
Net profit	96.3	101.2	182.3	106.8	79.1

(figures annualized)					
Return on equity	13.0%	14.1%	25.2%	14.7%	11.2%
Return on tangible equity	14.6%	16.0%	28.5%	16.6%	12.7%
Return on risk-weighted assets	2.44%	2.52%	4.43%	2.64%	2.00%
Return on total assets	1.11%	1.16%	2.05%	1.24%	0.94%
Net interest margin	2.01%	2.15%	2.05%	2.13%	2.10%
Cost-income ratio	43.2%	43.7%	41.6%	51.4%	50.2%
Risk costs / loans and receivables	0.14%	0.11%	0.13%	0.17%	0.16%

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on page 27.

BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

Strategy

The BAWAG P.S.K. Retail segment services 1.3 million private and small business customers through our centralized branch network that we jointly operate with the Austrian Post as well as our online and mobile sales channels supported by our outbound customer care center. We are one of the leading omni-channel retail banks in Austria, offering simple, fair and transparent products and services through various physical and digital sales channels with a strong and well-recognized national brand.

In the first three quarters 2016, we further invested in the development of our retail franchise to ensure high-quality service and advice for our customers. We continued focusing our team on highly-valued advisory activities to drive productivity. We successfully launched the automation of our broker mortgage loan application process, resulting in a higher share of business coming from our alternative sales channel. Furthermore, we continued to invest in sales force training and our proprietary online front-end sales system. We continue to be a leader in digital offerings to our customers, continually enhancing our customers' experience with new e-banking and mobile features. Our new Security App and one-touch security functions for smartphones are examples of enabling features for our customers to purchase our products and perform transactions anytime and anywhere, safely and securely.

First Three Quarters 2016 Business Review

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

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

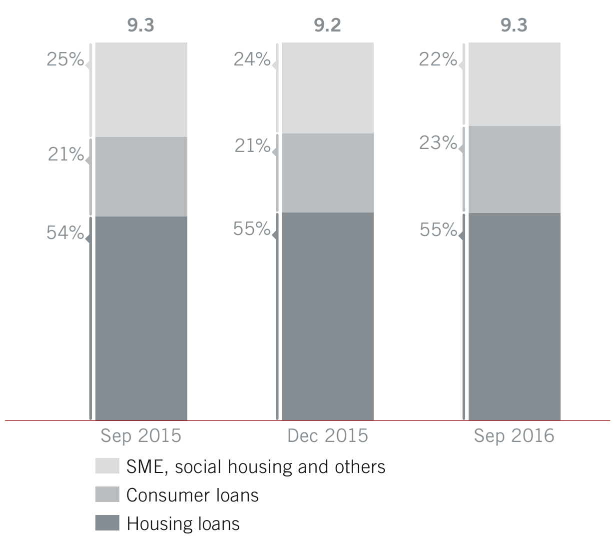
Growing our consumer loan franchise

During the third quarter 2016, we continued to grow our consumer loan franchise in absolute terms while also capturing market share. At the end of September, our consumer loan market share was 10.9% (excluding easygroup), up 100 basis points from year-end 2015. Total new consumer loan originations through the first three quarters amounted to EUR 440 million, with net asset growth of 10.0%. These results were delivered while 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 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. 21% of our consumer loan sales are already initiated through our digital channels, which are well received by our customers.

We believe there is continued room for growth in the Austrian consumer loan market as we deepen the relationship with our customer base, which historically has been more oriented towards deposit products. Our ambition is to grow our consumer loan market share (10.9% today) in line with the market share of our current account products (14%).

Asset volume development (in EUR billion)

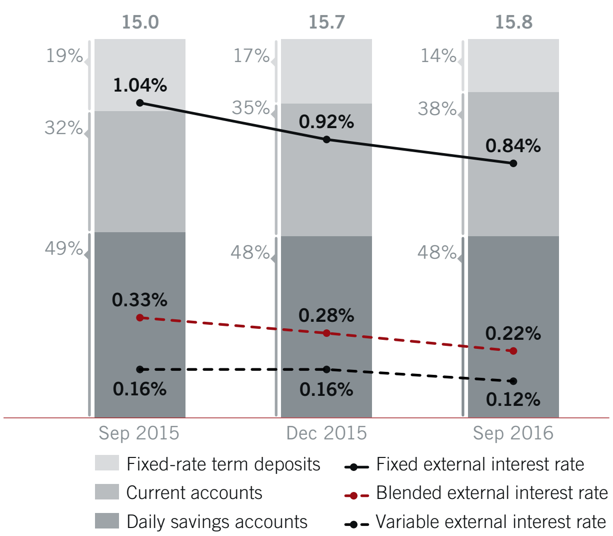


The total assets of the BAWAG P.S.K. Retail segment stood at EUR 9.3 billion at the end of the third quarter 2016, with total new originations of EUR 880 million for the first three quarters of 2016 and net asset growth of 1.3% compared to year-end 2015.

Optimizing our product mix

On the liability side, we continued the shift from fixed-rate term deposits to current accounts and daily savings accounts, thus providing for lower funding costs, freeing up sales force capacity and providing our customers with products with greater functionality. Overall, the blended external interest rate on retail deposits stood at 0.22% at the end of the third quarter 2016, down 6 basis points since year-end 2015.

Customer deposit volume development (in EUR billion)



In the area of fee-generating products, we continued the migration of existing current account customers towards our new KontoBoxes, which we launched in February 2016. The new generation of KontoBoxes offers our customers a series of enhanced services, such as a Gold Debit Card with mobile phone based payment functionality ("SmartPay") and in particular our new loyalty program DANKESCHÖN, which rewards customers for 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 improved customer experience. The migration of our customer base towards these new account models will continue to be a revenue driver going forward. The new boxes have been well received by our customers and the share of premium models among total KontoBoxes has significantly increased compared to prior-year sales.

Driving organic productivity and inorganic growth

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

Driving efficiency in the core franchise

The strong focus of our branch employees on advisory and sales is supported by the ongoing shift of basic transactions to digital and self-service channels.

Compared to 2015, the number of online payment transactions has increased by 10% and the share of online transactions (via our mobile apps) has increased by 52%. During the same period, the number of over-the-counter transactions has decreased by 10%, reflecting the changing composition of overall payments and the migration to digital and representing the significant shift in customer behavior.

All these initiatives result in lower costs to serve our customers. In addition, the continued development of our proprietary front-end tool "GATE" will further enhance our front-end processes and customer advisory experience.

Capitalizing on inorganic growth opportunities

We are continuously exploring various inorganic growth opportunities. In June, we announced the acquisition of start:bausparkasse and IMMO-Bank. The start:bausparkasse acquisition will give us a significant presence in the building society savings and loans sector, while IMMO-Bank will expand our reach with social housing associations and real estate companies. Both banks combine the expertise and long-standing tradition of two specialists in the housing and real estate finance sector and will thus make a significant contribution to the expansion of the domestic retail franchise.

Transforming to digital

Besides optimizing our branch network, we continue to launch new online and mobile products and service offerings in order to make our full product range available via our digital channels. We strive to offer banking transactions to our clients through simple, quick and flexible self-service functionalities.

In August, we successfully launched our new Security App, which allows a best-in-class secure TAN procedure for online and mobile banking. This app also offers additional features such as a one-time PIN for transactions on public devices as well as transaction notifications that can be tailored to the users' personal needs.

Furthermore, we relaunched the BAWAG P.S.K. company website. The new design incorporates best practices in terms of usability and convenience, with a stronger orientation towards product sales, and has been well received with a 5% increase in visitors compared to the third quarter last year.

Our full line of products offered through digital channels is a leader in the marketplace, and we continue to enhance our user experience and personalization features across the distribution system. Our goal is to provide high-value advice and products to our customers and simplify their financial lives. All our efforts are being rewarded with increasing usage by our customers. As an example, the growth rate of our online consumer loans is up 44% compared to the third quarter 2015.

We also continue to experience high growth rates for our mobile banking services. Our mobile banking usage has increased 40% over the last two years and is approaching more than 7 million customer logins per month. A total of 42% of our e-banking logins are now executed from mobile devices. In addition, we have experienced higher levels of interaction with our customers. Engagement with our customers allows us to better anticipate their needs and offer products and services at the appropriate time. Our efforts to grow our customer engagement through investments in data-based analytics will be a driver for increased cross-selling in the future.

Outlook

Over the next quarters, we will continue to optimize our distribution network and grow our alternative sales channels. This will further streamline our cost-to-serve while also enhancing our overall service and advisory quality and convenience. This will be done by investing in both our front-end tool "GATE" and our already broad digital offering. We continue to see opportunities to grow our alternative sales channels through high-quality broker relationships and distributed mobile and point-of-sale marketing. This clear focus makes us confident that we will continue to grow our consumer loan business and other key asset categories while further optimizing our cost structure. Additionally, our digital advances allow us to be closer to our customers, with greater engagement, and to deepen our relationships through higher-value products and services.

Financial Results

Income metrics (in EUR million)	Q3 2016	Q3 2015	Change (%)	Jan–Sep 2016	Jan–Sep 2015	Change (%)
Net interest income	89.2	83.4	7.0	258.6	248.7	4.0
Net fee and commission income	31.7	33.2	(4.5)	106.3	113.1	(6.0)
Core revenues	**120.9**	**116.6**	**3.7**	**364.9**	**361.8**	**0.9**
Gains and losses on financial instruments	0.0	(1.0)	100	0.8	4.5	(82.2)
Other operating income and expenses	0.0	(0.4)	100	1.0	1.0	–
Operating income	**120.9**	**115.2**	**4.9**	**366.7**	**367.3**	**(0.2)**
Operating expenses	**(65.7)**	**(74.1)**	**(11.3)**	**(201.8)**	**(224.7)**	**(10.2)**
Total risk costs	(9.3)	(6.6)	40.9	(26.6)	(25.4)	4.7
Regulatory charges	0.0	(6.6)	(100)	(12.4)	(6.6)	87.9
Profit before tax (= net profit)	**45.9**	**27.9**	**64.5**	**125.9**	**110.6**	**13.8**

Key ratios	Q3 2016	Q3 2015	Change (pts)	Jan–Sep 2016	Jan–Sep 2015	Change (pts)
Return on equity	21.1%	13.3%	7.8	19.6%	18.0%	1.6
Return on risk-weighted assets	4.92%	2.81%	2.11	4.47%	3.89%	0.58
Net interest margin	3.85%	3.58%	0.27	3.73%	3.59%	0.14
Cost-income ratio	54.3%	64.3%	(10.0)	55.0%	61.2%	(6.2)
Risk costs / loans and receivables	0.40%	0.28%	0.12	0.38%	0.37%	0.01
NPL ratio	2.3%	2.2%	0.1	2.3%	2.2%	0.1

Business volumes (in EUR million)	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Assets	9,293	9,178	1.3	9,255	0.4
Risk-weighted assets	3,676	3,827	(3.9)	3,971	(7.4)
Customer deposits	15,788	15,663	0.8	15,124	4.4
Own issues	2,522	2,122	18.9	2,126	18.6

The segment achieved a net profit of EUR 125.9 million in the first three quarters 2016, up 13.8% compared to the same period last year, and delivering a return on equity of 19.6% and a cost-income ratio of 55.0%. Higher core revenues (up 0.9%) and lower operating expenses (down 10.2%) offset in particular the increased regulatory charges stemming from the deposit guarantee scheme, which represented full-year expenses even though they were booked in the first half. Accounting for regulatory charges on a pro-rata basis throughout the year would have resulted in a net profit of EUR 129.0 million, or a 16.6% increase compared to the same period last year. Overall risk metrics reflect the high credit quality of the retail business, with a risk cost ratio of 0.38% (down 1 basis point) and an NPL ratio of 2.3% (up 10 basis points).

EASYGROUP

Strategy

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

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

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

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

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

- the #1 rated direct bank in Austria, *easybank*;
- the #3 auto lessor in Austria. Our leasing business originated EUR 277 million of new consumer auto leases in the first three quarters 2016; and
- EUR 1.9 billion of performing mortgages in the UK, consisting of approximately 20,000 customers.

easygroup is a cornerstone to the overall growth strategy for BAWAG P.S.K. Group. Our goal is to continue being the leading direct bank within Austria and to expand into larger Western markets, such as Germany and the UK.

First Three Quarters 2016 Business Review

Compared to September 2015, easygroup's client base was up 25% to approximately 400,000 customers with more than 670,000 accounts. easygroup ended the third quarter 2016 with deposits of EUR 3.8 billion, up 23% since September 2015. Our strong results are due to four key pillars:

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

Growing our customer base and market share in Austria

At the end of September 2016, easygroup had approximately 380,000 customers within Austria, an increase of 18% compared to September last year. The main driver of this customer growth was our acquisition of Volksbank Leasing in the fourth quarter 2015. In addition, we had strong organic customer growth of 5%, coming from our online channel and key partnerships. Partnerships such as those with ÖAMTC, Shell and Energie Steiermark give us indirect access to approximately half the Austrian population. As we go forward, we will look to leverage these relationships in order to further increase our customer base.

During the first three quarters 2016, we produced strong originations of EUR 277 million in consumer auto leasing, up 12% from the same time period in 2015. This performance was driven by our ability to provide customers with unique products, a best-in-class sales team, strong relationships and lean processes. We work with approximately 1,000 dealerships, representing roughly 50% of auto dealerships nationwide.

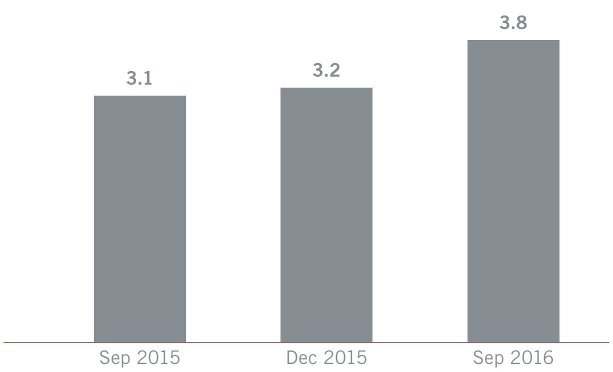
The segment's assets stood at EUR 3.1 billion at the end of September 2016, down 16% compared to year-end 2015. Whereas we saw a continued increase in leasing and domestic loans, our international residential mortgage portfolio decreased due to redemptions and FX rate changes.

One of our strategies is to find best-in-class vendors to partner with. In July, we entered into an agreement to be the financing partner of Austria's leading online car sales channel, *Autogott*. This partnership is a perfect fit for easygroup, combining our ability to market via an online channel with our leasing expertise. The partnership will also help spread brand awareness for easygroup while leveraging its ability to offer banking services via direct channels.

Building and maintaining customer loyalty

easybank has always been determined to offer our customers the best banking experience. We believe this helps drive customer loyalty. In the first three quarters 2016, *easybank* increased the number of current accounts and savings accounts by 7%. Given the overall interest landscape, *easybank* reduced its external interest rate offered to customers, bringing our average deposit cost from 48 basis points in September 2015 to 45 basis points in September 2016.

Customer deposit volume development (in EUR billion)



Driving efficiency across the organization

During the first three quarters 2016, we continued integrating Volksbank Leasing into our existing leasing franchise. In addition to the strong increase in leasing sales, the combination of the two entities enabled us to benefit from economies of scale.

In September, we successfully launched our new brand *easyleasing*. *easyleasing* will become our "one brand and one face" to the leasing market in Austria. By combining best-in-class practices from both BAWAG P.S.K. Leasing and Volksbank Leasing, we have created a highly efficient, customer-focused organization.

Expanding internationally into Western markets

Another driver for our increased performance in the first three quarters 2016 was the acquisition of EUR 2.0 billion of high-quality performing residential mortgages in the UK in the fourth quarter 2015. This acquisition is in line with our strategy to expand into other Western European markets. We are currently in the process of looking at a few other inorganic opportunities that may help us expedite our growth plan. Not only do the acquisitions bring in core revenues, they also give us access to customers in future target markets.

Outlook

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

In addition to inorganic purchases abroad, we are planning to start offering direct banking services in Germany, with the plan to be offering loans to German customers during the first half 2017.

Financial Results

Income metrics (in EUR million)	Q3 2016	Q3 2015	Change (%)	Jan–Sep 2016	Jan–Sep 2015	Change (%)
Net interest income	27.5	12.1	>100	81.8	35.3	>100
Net fee and commission income	2.4	1.6	50.0	6.9	5.8	19.0
Core revenues	**29.9**	**13.7**	**>100**	**88.7**	**41.1**	**>100**
Gains and losses on financial instruments	2.1	0.0	100	8.0	0.0	100
Other operating income and expenses	(0.2)	0.1	–	(0.1)	0.3	–
Operating income	**31.8**	**13.8**	**>100**	**96.6**	**41.4**	**>100**
Operating expenses	**(7.6)**	**(5.8)**	**31.0**	**(23.3)**	**(17.2)**	**35.5**
Total risk costs	0.2	(2.5)	–	(1.9)	(1.8)	5.6
Regulatory charges	0.0	0.0	–	(2.5)	0.0	100
Profit before tax (= net profit)	**24.4**	**5.5**	**>100**	**68.9**	**22.4**	**>100**

Key ratios	Q3 2016	Q3 2015	Change (pts)	Jan–Sep 2016	Jan–Sep 2015	Change (pts)
Return on equity	26.2%	22.3%	3.9	24.9%	35.1%	(10.2)
Return on risk-weighted assets	4.45%	5.53%	(1.08)	4.14%	5.14%	(1.00)
Net interest margin	3.49%	11.89%	(8.40)	3.26%	11.83%	(8.57)
Cost-income ratio	23.9%	42.0%	(18.1)	24.1%	41.5%	(17.4)
Risk costs / loans and receivables	(0.03)%	2.46%	(2.49)	0.08%	0.60%	(0.52)
NPL ratio	2.5%	0.7%	1.8	2.5%	0.7%	1.8

Business volumes (in EUR million)	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Assets	3,053	3,644	(16.2)	418	>100
Risk-weighted assets	2,541	1,897	33.9	390	>100
Customer deposits	3,766	3,204	17.5	3,082	22.2

The segment achieved a net profit of EUR 68.9 million in the first three quarters 2016 with a return on equity of 24.9% and a cost-income ratio of 24.1%. The underlying performance reflects 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. Comparability of the current 2016 financial metrics and business volumes with previous periods is limited due to the recent acquisitions.

The increase of risk-weighted assets by 33.9% compared to year-end 2015 is due to the commitment to acquire a high-quality performing mortgage portfolio in France, which is expected to be funded in the fourth quarter 2016.

DACH CORPORATES & PUBLIC SECTOR

Strategy

DACH Corporates & Public Sector comprises our corporate and public lending activities and other fee-driven financial services, mainly for Austrian customers. Select client relationships in neighboring countries (mainly Germany and Switzerland) are included as well. The DACH Corporates & Public Sector business was realigned to better capitalize on corporate banking opportunities across the DACH region, leveraging our Austrian customer base and relationship managers to address the broader German and Swiss markets. This will provide a broader base of commercial opportunities and complement the international growth of easygroup into Germany.

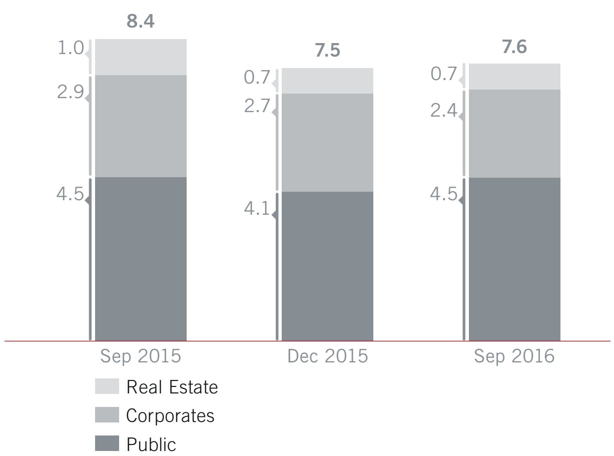
The DACH business started the year 2016 with streamlined and rightsized processes in reaction to the changing market environment. We service our corporate and public sector customers with a full range of products focusing on financing, investment and payment service products and a dedicated team of sales professionals across Austria. Non-Austrian clients are either serviced directly from Vienna or with the support of our London office in the case of syndicated deals.

Our focus continues to be on maintaining and acquiring sustainable relationships while staying disciplined on pricing despite the competitive landscape. Additionally, we have rolled out new investment and FX products, which differentiate our offerings from competitors in order to drive fee income opportunities.

First Three Quarters 2016 Business Review

Overall commercial loan demand in Austria continued to be weak in the first three quarters 2016, with lower new lending volumes than in the previous year. This is a result of several factors including flat domestic output, lower corporate investment as well as macro risks across Europe. The lower demand and high liquidity available to banks have led to further pressure on margins. Our business solution teams continued to elevate our strong client relationships across financing products as well as payments and cash management services, while striving to maintain and increase strong risk-adjusted pricing for the Bank. New business volume followed the market trend. In the first three quarters, we recorded EUR 390 million of new lending in addition to normal renewals. Overall market share decreased slightly due to early redemptions of selected loans.

Asset volume development (in EUR billion)



The segment's assets stood at EUR 7.6 billion at the end of the first three quarters 2016, up 2% compared to December 2015. This moderate development reflects the low disbursements with corporate and real estate clients, partly compensated for by short-term lending to municipalities and social insurance companies.

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

Outlook

We expect no negative impact from BREXIT on loan demand and plan for a market that will grow slightly but remain very competitive. At the same time, we do not expect improved margins as overall liquidity in the market is supported by the ECB and investment demand is unlikely to recover in the near term. The recent organizational improvements provide the flexibility and speed necessary for strategic transactions requiring complete debt solutions for clients. Overall, we expect our sales team to achieve higher new lending volumes at stable margins. The acquisition of IMMO-Bank will provide further financing opportunities in the commercial real estate space in Austria, providing access to over 1,400 clients.

Financial Results

Income metrics (in EUR million)	Q3 2016	Q3 2015	Change (%)	Jan–Sep 2016	Jan–Sep 2015	Change (%)
Net interest income	18.6	25.4	(26.8)	58.9	77.0	(23.5)
Net fee and commission income	9.6	9.5	1.1	29.7	29.5	0.7
Core revenues	**28.2**	**34.9**	**(19.2)**	**88.6**	**106.5**	**(16.8)**
Gains and losses on financial instruments	1.2	(0.8)	–	1.1	3.7	(70.3)
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**29.4**	**34.1**	**(13.8)**	**89.7**	**110.2**	**(18.6)**
Operating expenses	**(12.9)**	**(14.2)**	**(9.2)**	**(38.7)**	**(42.1)**	**(8.1)**
Total risk costs	1.3	(0.4)	–	2.7	(3.9)	–
Profit before tax (= net profit)	**17.8**	**19.5**	**(8.7)**	**53.7**	**64.2**	**(16.4)**

Key ratios	Q3 2016	Q3 2015	Change (pts)	Jan–Sep 2016	Jan–Sep 2015	Change (pts)
Return on equity	13.6%	13.4%	0.2	13.2%	15.3%	(2.1)
Return on risk-weighted assets	2.47%	2.22%	0.25	2.40%	2.29%	0.11
Net interest margin	0.99%	1.20%	(0.21)	1.04%	1.18%	(0.14)
Cost-income ratio	43.9%	41.6%	2.3	43.1%	38.2%	4.9
Risk costs / loans and receivables	(0.07)%	0.02%	(0.09)	(0.05)%	0.06%	(0.11)
NPL ratio	0.7%	1.0%	(0.3)	0.7%	1.0%	(0.3)

Business volumes (in EUR million)	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Assets	7,647	7,527	1.6	8,415	(9.1)
Risk-weighted assets	2,868	3,087	(7.1)	3,478	(17.5)
Customer deposits (incl. other refinancing)	3,792	5,568	(31.9)	4,118	(7.9)
Own issues	201	203	(1.0)	203	(1.0)

The segment contributed EUR 53.7 million to the Bank's net profit in the first three quarters 2016, down 16.4% versus the same period in 2015, but still delivered a return on equity of 13.2%. Core revenues were down 16.8%, driven by early redemptions, margin pressure and low new business volume. This was offset by an improvement in operating expenses (down 8.1%) and positive risk costs. The overall quality of the portfolio remained stable, with an NPL ratio of 0.7%, which was a reflection of prior years' de-risking activities and the overall high credit quality of the assets.

INTERNATIONAL BUSINESS

Strategy

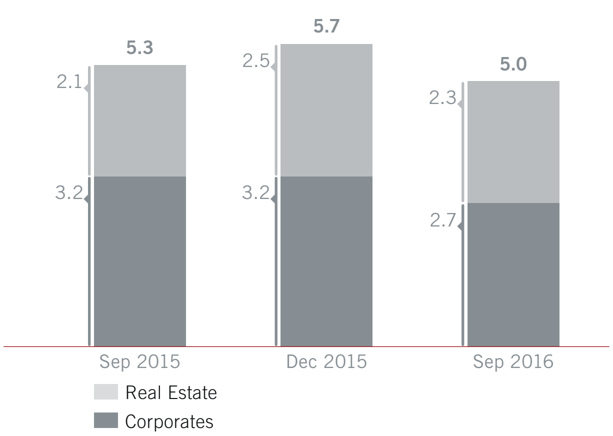
International Business includes our international corporate, real estate and portfolio lending outside of the DACH region, with a focus on developed countries within Western Europe as well as the United States.

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

First Three Quarters 2016 Business Review

We continued to focus on our loan origination opportunities primarily in select developed Western countries and generated new business of EUR 1.6 billion in the first three quarters 2016.

Asset volume development (in EUR billion)



Our **international corporate lending business** continued to be faced with early redemptions arising from competitive market conditions in a low-interest rate environment. Together with a strong home currency, the portfolio experienced an asset volume decrease of 17% to EUR 2.7 billion in the first three quarters 2016. Our new business volume primarily consists of investment grade loans with a general focus on defensive industries. Overall blended net leverage of the companies in our international corporate business was 4.6x and for the tranches BAWAG P.S.K. lends to 2.7x.

Our **international real estate financing business** was also affected by an increased volume of early redemptions. In combination with a strengthening euro, the total asset volume decreased by 10% to EUR 2.3 billion. Transaction diversification continued across our commercial real estate lending business on a geographic, asset and industry basis. These transactions focused primarily on traditional real estate financings with attractive LTVs, strong cash flow, shorter weighted expected maturities and solid covenant characteristics. Overall portfolio performance and credit trends remained solid with some shortening of duration as loan amortizations increase ahead of original projections. We are also active in portfolio financing with low loan-to-value (LTV) and low loan-to-cost (LTC) positions against a more diversified portfolio of cash generating real estate assets. The portfolio has strong collateral coverage characteristics (average LTV <60%), provides strong cash flows (average debt yield >10%) and is structured to perform well in stressed market conditions, with shorter average durations.

Outlook

We see a solid pipeline with diversified opportunities during the fourth quarter 2016 and therefore expect volumes to stabilize for both the international corporate lending and real estate financing businesses. Margins will largely remain stable, although competition for defensive, high-quality transactions will continue to remain high.

Based on our stable and conservative business model with select investments in the UK as well as our established risk management strategies, we believe that BREXIT will only have a moderate overall impact on corporate credit risks in this segment due to either the high individual credit quality of the borrowers, their geographic diversification or the nature of the industries they operate in.

Financial Results

Income metrics (in EUR million)	Q3 2016	Q3 2015	Change (%)	Jan–Sep 2016	Jan–Sep 2015	Change (%)
Net interest income	33.9	34.5	(1.7)	101.7	105.4	(3.5)
Net fee and commission income	0.0	0.0	–	(0.1)	0.0	(100)
Core revenues	**33.9**	**34.5**	**(1.7)**	**101.6**	**105.4**	**(3.6)**
Gains and losses on financial instruments	(0.6)	(0.7)	14.3	(2.3)	(6.4)	64.1
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**33.3**	**33.7**	**(1.2)**	**99.3**	**99.0**	**0.3**
Operating expenses	**(6.7)**	**(6.4)**	**4.7**	**(20.0)**	**(17.7)**	**13.0**
Total risk costs	0.1	3.0	(96.7)	3.1	0.2	>100
Profit before tax (= net profit)	**26.7**	**30.4**	**(12.2)**	**82.4**	**81.5**	**1.1**

Key ratios	Q3 2016	Q3 2015	Change (pts)	Jan–Sep 2016	Jan–Sep 2015	Change (pts)
Return on equity	19.8%	17.9%	1.9	19.1%	18.8%	0.3
Return on risk-weighted assets	2.80%	2.38%	0.42	2.65%	2.48%	0.17
Net interest margin	2.71%	2.49%	0.22	2.53%	2.72%	(0.19)
Cost-income ratio	20.1%	14.5%	5.6	20.1%	17.9%	2.2
Risk costs / loans and receivables	(0.01)%	0.00%	(0.01)	(0.08)%	(0.01)%	(0.07)
NPL ratio	0.0%	0.0%	0.0	0.0%	0.0%	0.0

Business volumes (in EUR million)	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Assets	4,954	5,748	(13.8)	5,317	(6.8)
Risk-weighted assets	3,731	4,565	(18.3)	4,565	(18.3)

The segment contributed EUR 82.4 million to the Bank's net profit in the first three quarters 2016, up 1.1% from the same period last year, and delivered a return on equity of 19.1% despite higher-than-anticipated early redemptions, partly offset by positive risk costs. Operating income was stable. Similar to the DACH business, the international business is characterized by high credit quality assets with no non-performing loans.

TREASURY SERVICES & MARKETS

Strategy

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

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

First Three Quarters 2016 Business Review

During the first three quarters 2016, Treasury Services & Markets reduced investment and designation in held-to-maturity securities slightly to EUR 2.2 billion as of 30 September 2016, while at the same time available-for-sale securities and fair value positions remained unchanged at EUR 2.7 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 30 September 2016, Treasury Services & Markets managed a total investment portfolio of EUR 5.1 billion and a liquidity reserve of EUR 0.8 billion. The investment portfolio's average maturity was 4.1 years, comprised 97% of investment grade rated securities (100% investment grade issuer ratings), of which 80% were rated in the single A category or higher. Exposure to CEE represented less than 2% of the portfolio and was limited to select bonds, with 100% rated in the single A equivalent category or better. As of 30 September 2016, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. This overall composition reflects the Bank's strategy to maintain high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Outlook

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

Financial Results

Income metrics (in EUR million)	Q3 2016	Q3 2015	Change (%)	Jan–Sep 2016	Jan–Sep 2015	Change (%)
Net interest income	13.2	15.1	(12.6)	41.4	43.1	(3.9)
Net fee and commission income	0.0	0.0	–	0.0	0.0	–
Core revenues	**13.2**	**15.1**	**(12.6)**	**41.4**	**43.1**	**(3.9)**
Gains and losses on financial instruments	10.4	(1.7)	–	11.1	0.9	>100
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**23.6**	**13.4**	**76.1**	**52.5**	**44.0**	**19.3**
Operating expenses	**(4.0)**	**(5.3)**	**(24.5)**	**(12.0)**	**(14.8)**	**(18.9)**
Total risk costs	0.0	0.0	–	0.0	0.0	–
Profit before tax (= net profit)	**19.6**	**8.1**	**>100**	**40.5**	**29.2**	**38.7**

Key ratios	Q3 2016	Q3 2015	Change (pts)	Jan–Sep 2016	Jan–Sep 2015	Change (pts)
Return on equity	21.9%	9.5%	12.4	15.3%	10.3%	5.0
Return on risk-weighted assets	4.23%	1.73%	2.50	2.96%	1.84%	1.12
Net interest margin	0.87%	0.87%	0.00	0.91%	0.82%	0.09
Cost-income ratio	16.9%	39.6%	(22.7)	22.9%	33.6%	(10.7)

Business volumes (in EUR million)	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Assets and liquidity reserve	5,905	6,293	(6.2)	6,519	(9.4)
Risk-weighted assets	1,868	1,785	4.6	1,908	(2.1)
Own issues and other liabilities	747	1,365	(45.3)	441	69.4

The segment contributed EUR 40.5 million to the Bank's net profit in the first three quarters 2016, up 38.7% compared to the same period in 2015, and delivered a return on equity of 15.3%. Overall core revenues were down 3.9%, with higher gains and losses on financial instruments and lower operating expenses.

CORPORATE CENTER

First Three Quarters 2016 Review

The Corporate Center contains central functions for the entire Bank. Accounting entries, e.g. market values from derivatives, represent the largest portion of assets, while capital and market values from derivatives represent the majority of the liabilities. Restructuring expenses, contributions to the single resolution fund, the bank levy, corporate taxes and other one-off items are included in this segment.

The increase in net profit in the first three quarters 2016 was mainly driven by the recognition of deferred tax assets on tax loss carryforwards, partially offset by lower net interest income. Regulatory charges (including the bank levy and the contributions to the single resolution fund) and operating expenses remained largely stable during the reporting period.

In the first three quarters 2016, the volume of other assets and other liabilities increased slightly, while risk-weighted assets came in lower compared to the previous year.

Financial Results

Income metrics (in EUR million)	Q3 2016	Q3 2015	Change (%)	Jan–Sep 2016	Jan–Sep 2015	Change (%)
Net interest income	(8.5)	7.2	–	1.9	29.5	(93.6)
Net fee and commission income	(0.5)	(1.4)	64.3	3.3	(3.6)	–
Core revenues	**(9.0)**	**5.8**	**–**	**5.2**	**25.9**	**(79.9)**
Gains and losses on financial instruments	9.0	9.9	(9.1)	31.9	25.7	24.1
Other operating income and expenses	(0.9)	1.8	–	1.2	6.2	(80.6)
Operating income	**(0.9)**	**17.5**	**–**	**38.3**	**57.8**	**(33.7)**
Operating expenses	**(5.8)**	**(8.9)**	**(34.8)**	**(22.3)**	**(24.2)**	**(7.9)**
Total risk costs	(1.3)	(0.3)	>100	(2.2)	(3.7)	(40.5)
Regulatory charges	(5.9)	(6.4)	(7.8)	(24.9)	(23.1)	7.8
Share of the profit or loss of associates accounted for using the equity method	1.9	1.3	46.2	6.2	3.1	100
Profit before tax	**(12.0)**	**3.2**	**–**	**(4.9)**	**9.9**	**–**
Income taxes	(25.9)	(11.5)	>(100)	13.5	(30.1)	–
Non-controlling interests	0.0	0.0	–	(0.2)	0.0	(100)
Net profit	**(37.8)**	**(8.3)**	**>(100)**	**8.2**	**(20.1)**	**–**

Volumes (in EUR million)	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Other assets	3,546	3,317	6.9	3,147	12.7
Risk-weighted assets	1,270	1,373	(7.5)	1,487	(14.6)
Equity and other liabilities	5,838	5,581	4.6	5,659	3.2

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. delivered strong results in the first three quarters 2016. We anticipate that this positive trend will continue throughout the remainder of the year. All key financial targets are expected to be achieved or exceeded 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); as of September 2016, the total exposure calculation was adapted from three-month averages to an end-of-period figure in line with changed regulatory requirements and applied retroactively
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
Return on risk-weighted assets	Net profit / average risk-weighted assets
Return on tangible equity	Net profit / average IFRS tangible equity
Return on total assets	Net profit / average total assets
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG 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]	Jan–Sep 2016	Jan–Sep 2015	Q3 2016	Q3 2015
Interest income		775.0	789.2	252.3	256.5
Interest expense		(232.6)	(260.4)	(78.3)	(81.5)
Dividend income		1.9	10.2	0.0	0.8
Net interest income	**[1]**	**544.3**	**539.0**	**174.0**	**175.8**
Fee and commission income		205.2	216.9	64.4	67.3
Fee and commission expenses		(59.1)	(72.1)	(21.3)	(24.4)
Net fee and commission income	**[2]**	**146.1**	**144.8**	**43.1**	**42.9**
Gains and losses on financial assets and liabilities	[3]	50.6	28.4	22.1	4.8
Other operating income and expenses		(36.4)	(21.0)	(6.6)	(11.1)
Operating expenses	[4]	(319.4)	(341.9)	(103.3)	(113.2)
Provisions and impairment losses	[5]	(24.9)	(34.6)	(9.0)	(9.9)
Share of the profit or loss of associates accounted for using the equity method		6.2	3.1	1.9	1.3
Profit before tax		**366.5**	**317.8**	**122.2**	**90.6**
Income taxes		13.5	(30.1)	(25.9)	(11.5)
Profit after tax		**380.0**	**287.7**	**96.3**	**79.1**
Thereof attributable to non-controlling interests		0.2	0.0	0.0	0.0
Thereof attributable to owners of the parent		**379.8**	**287.7**	**96.3**	**79.1**

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 38.5 million (Jan–Sep 2015: EUR 28.5 million). The item Operating expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of EUR 1.3 million (Jan–Sep 2015: EUR 1.2 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report. The regulatory expenses include the total contributions to both the single resolution fund and the deposit guarantee scheme for the year 2016.

The income taxes include the recognition of deferred tax assets on tax loss carryforwards in the amount of EUR 99.6 million based on the tax loss carryforwards at the level of BAWAG Holding GmbH in the amount of EUR 399 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 86.1 million.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	[Notes]	Jan–Sep 2016	Jan–Sep 2015	Q3 2016	Q3 2015
Profit after tax		**380.0**	**287.7**	**96.3**	**79.1**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/loss on defined benefit plans	[12]	(20.3)	13.7	(4.7)	(0.2)
Income tax on items that will not be reclassified		5.1	(3.4)	1.2	0.1
Total items that will not be reclassified to profit or loss		**(15.2)**	**10.3**	**(3.5)**	**(0.1)**
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge reserve		14.8	–	4.4	–
Available-for-sale reserve		12.5	(83.1)	22.3	(15.5)
Share of other comprehensive income of associates accounted for using the equity method		(3.1)	0.0	(0.2)	0.0
Income tax relating to items that may be reclassified		(8.4)	20.5	(6.6)	3.9
Total items that may be reclassified subsequently to profit or loss		**15.8**	**(62.6)**	**19.9**	**(11.6)**
Total comprehensive income, net of tax		**380.6**	**235.5**	**112.7**	**67.4**
Thereof attributable to non-controlling interests		0.2	0.0	0.0	0.0
Thereof attributable to owners of the parent		**380.4**	**235.5**	**112.7**	**67.4**

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	Sep 2016	Dec 2015
Cash reserves		836	809
Financial assets designated at fair value through profit or loss		203	303
Available-for-sale financial assets	[6]	2,986	2,745
Held-to-maturity investments		2,163	2,290
Financial assets held for trading	[7]	817	950
Loans and receivables	[8]	25,815	27,396
Customers		23,915	24,713
Credit institutions		1,085	1,710
Securities		815	973
Hedging derivatives		841	469
Property, plant and equipment		54	59
Investment properties		3	4
Goodwill		58	58
Brand name and customer relationships		164	168
Software and other intangible assets		115	103
Tax assets for current taxes		7	20
Tax assets for deferred taxes		204	190
Associates recognized at equity		43	43
Other assets		88	92
Assets in disposal groups		–	9
Total assets		**34,397**	**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 16 of this Consolidated Interim Report.

Total liabilities and equity

in EUR million	[Notes]	Sep 2016	Dec 2015
Total liabilities		**31,368**	**32,751**
Financial liabilities designated at fair value through profit or loss	[9]	1,068	1,269
Financial liabilities held for trading	[10]	807	1,071
Financial liabilities at amortized cost	[11]	27,953	28,514
Customers		22,722	21,692
Issued bonds, subordinated and supplementary capital		3,644	3,236
Credit institutions		1,587	3,586
Financial liabilities associated with transferred assets		–	621
Valuation adjustment on interest rate risk hedged portfolios		327	169
Hedging derivatives		217	106
Provisions	[12]	421	419
Tax liabilities for current taxes		5	6
Other obligations		570	576
Obligations in disposal groups		–	0
Total equity		**3,029**	**2,957**
Equity attributable to the owners of the parent		3,027	2,956
Non-controlling interests		2	1
Total liabilities and equity		**34,397**	**35,708**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2015	**100**	**1,086**	**1,410**	**107**	**–**	**(84)**	**2,619**	**–**	**2,619**
Transactions with owners	–	6	–	–	–	–	6	–	6
Owner's contribution	–	6	–	–	–	–	6	–	6
Total comprehensive income	–	–	288	(62)	–	10	236	–	236
Balance as of 30.09.2015	**100**	**1,092**	**1,698**	**45**	**–**	**(74)**	**2,861**	**–**	**2,861**
Balance as of 01.01.2016	**100**	**1,094**	**1,793**	**41**	**–**	**(72)**	**2,956**	**1**	**2,957**
Transactions with owners	–	–	(309)	–	–	–	(309)	–	(309)
Dividends	–	–	(309)	–	–	–	(309)	–	(309)
Owner's contribution	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	379	5	11	(15)	380	1	381
Balance as of 30.09.2016	**100**	**1,094**	**1,863**	**46**	**11**	**(87)**	**3,027**	**2**	**3,029**

CONDENSED CASH FLOW STATEMENT

in EUR million	Jan–Sep 2016	Jan–Sep 2015
Cash and cash equivalents at end of previous period	**809**	**684**
Profit (after tax, before non-controlling interests)	380	288
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(507)	(476)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(80)	(992)
Interest receipts	787	799
Interest paid	(188)	(227)
Dividend receipts	2	10
Net cash from operating activities	**394**	**(598)**
Cash receipt from sales of subsidiaries	91	105
Cash receipts from sales of		
Financial investments	1,115	1,239
Tangible and intangible non-current assets	1	18
Cash paid for		
Financial investments	(1,222)	(719)
Tangible and intangible non-current assets	(30)	(21)
Net cash used in investing activities	**(45)**	**622**
Dividends paid	(309)	0
Redemption of hybrid capital issue (BCF II)	0	(83)
Others	(13)	(105)
Net cash from financing activities	**(322)**	**(188)**
Cash and cash equivalents at end of period	**836**	**520**

Cash flow from the sale of subsidiaries

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

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

in EUR million	Jan–Sep 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**

NOTES

The consolidated interim financial statements of BAWAG Holding Group (referred to as BAWAG P.S.K. throughout the document unless stated otherwise) as of 30 September 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 interim financial statements for the first three quarters 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 parts of highly probable future cash flows to be designated as a hedged item subject to cash flow hedge accounting. In each case, BAWAG P.S.K. designates the first cash flows for a defined period of time as a hedged item.

In other operating income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in the first three quarters 2016 fair value gains in the amount of EUR 14.8 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 30 September 2016, the Group consists of 31 (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 2016, BAWAG Malta Bank Limited was sold and thus deconsolidated. In September 2016 VB Technologie Finanzierungs GmbH was merged into VB Leasing Finanzierungsgesellschaft m.b.H. Thus, VB Leasing Finanzierungsgesellschaft m.b.H. was renamed to easyleasing GmbH.

The interim financial statements for the first three quarters 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	Jan–Sep 2016	Jan–Sep 2015
Interest income	775.0	789.2
Interest expense	(232.6)	(260.4)
Dividend income	1.9	10.2
Net interest income	**544.3**	**539.0**

2 | Net fee and commission income

in EUR million	Jan–Sep 2016	Jan–Sep 2015
Fee and commission income	**205.2**	**216.9**
Payment transfers	127.3	128.3
Lending	22.6	19.0
Securities and custody business	27.6	41.9
Other	27.7	27.7
Fee and commission expenses	**(59.1)**	**(72.1)**
Payment transfers	(29.7)	(28.8)
Other	(29.4)	(43.3)
Net fee and commission income	**146.1**	**144.8**

3 | Gains and losses on financial assets and liabilities

in EUR million	Jan–Sep 2016	Jan–Sep 2015
Realized gains on sales of subsidiaries and securities	33.2	58.5
Fair value gains and losses	16.3	(34.2)
Gains (losses) from fair value hedge accounting	(1.0)	(0.6)
Others	2.1	4.7
Gains and losses on financial assets and liabilities	**50.6**	**28.4**

4 | Operating expenses

in EUR million	Jan–Sep 2016	Jan–Sep 2015
Staff costs	(172.6)	(191.2)
Other administrative expenses	(108.5)	(121.9)
Depreciation and amortization on tangible and intangible assets	(26.6)	(28.8)
Restructuring and other one-off expenses	(11.7)	0.0
Operating expenses	**(319.4)**	**(341.9)**

The line item Restructuring and other one-off expenses, totaling minus EUR 11.7 million in the first three quarters 2016, mainly includes expenses for restructuring costs, partially offset by the reclassification of interest expense for social capital to net interest income.

5 | Provisions and impairment losses

in EUR million	Jan–Sep 2016	Jan–Sep 2015
Loan-loss provisions and changes in provisions for off-balance credit risk	(20.9)	(31.2)
Provisions and expenses for operational risk	(3.2)	(3.4)
Impairment losses on financial assets	(0.8)	0.0
Provisions and impairment losses	**(24.9)**	**(34.6)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Available-for-sale financial assets

in EUR million	Sep 2016	Dec 2015
Bonds	**2,905**	**2,661**
Bonds of other issuers	2,383	2,320
Public sector debt instruments	522	341
Subsidiaries and other equity investments	**81**	**84**
Available-for-sale financial assets	**2,986**	**2,745**

7 | Financial assets held for trading

in EUR million	Sep 2016	Dec 2015
Derivatives in trading book	285	320
Derivatives in banking book	532	630
Financial assets held for trading	**817**	**950**

8 | Loans and receivables

Sep 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	**23,571**	**573**	**(168)**	**(61)**	**23,915**
thereof IBNR portfolio provision[1)]	0	0	0	(39)	(39)
Securities	**815**	**0**	**0**	**0**	**815**
Receivables from credit institutions	**1,085**	**0**	**0**	**0**	**1,085**
Total	**25,471**	**573**	**(168)**	**(61)**	**25,815**

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:

Sep 2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	9,093	209	(126)	(20)	9,156
easygroup	3,052	38	(20)	(2)	3,068
DACH Corporates & Public Sector	7,426	31	(22)	0	7,435
International Business	4,788	0	0	0	4,788
Treasury Services & Markets	1,026	0	0	0	1,026
Corporate Center	87	295	0	(39)	343
Total	**25,471**	**573**	**(168)**	**(61)**	**25,815**

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
BAWAG P.S.K. Retail	8,982	193	(121)	(18)	9,036
easygroup	3,622	22	(14)	0	3,630
DACH Corporates & Public Sector	7,271	53	(34)	0	7,289
International Business	5,429	0	0	0	5,429
Treasury Services & Markets	1,595	0	0	0	1,595
Corporate Center	162	302	0	(46)	418
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	**Sep 2016**	Dec 2015
Loans	20,791	22,258
Current accounts	1,436	1,041
Finance leases	1,273	1,283
Cash advances	415	131
Receivables from customers	**23,915**	**24,713**

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

in EUR million	Sep 2016	Dec 2015
Issued debt securities	951	1,121
Subordinated and supplementary capital	117	148
Financial liabilities designated at fair value through profit or loss	**1,068**	**1,269**

10 | Financial liabilities held for trading

in EUR million	Sep 2016	Dec 2015
Derivatives trading book	212	291
Derivatives banking book	595	780
Financial liabilities held for trading	**807**	**1,071**

11 | Financial liabilities measured at amortized cost

in EUR million	Sep 2016	Dec 2015
Deposits from banks	**1,587**	**3,586**
Deposits from customers	**22,722**	**21,692**
Savings deposits – fixed interest rates	1,994	2,363
Savings deposits – variable interest rates	4,539	4,556
Deposit accounts	6,029	5,490
Current accounts – Retail	6,981	6,488
Current accounts – Corporates	1,876	2,003
Other deposits[1)]	1,303	792
Issued bonds, subordinated and supplementary capital	**3,644**	**3,236**
Issued debt securities	3,195	2,821
Subordinated and supplementary capital	449	415
Financial liabilities measured at amortized cost	**27,953**	**28,514**

1) Primarily time deposits.

12 | Provisions

in EUR million	Sep 2016	Dec 2015
Provisions for social capital	404	390
Anticipated losses from pending business	8	24
Other items including legal risks	9	5
Provisions	**421**	**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 1.40% 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 15.2 million in other comprehensive income and minus EUR 1.6 million in profit or loss.

13 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Sep 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	783	49	0	140
Securities	0	0	0	20	0
Other assets (incl. derivatives)	18	1	6	0	0
Financial liabilities – customers	0	0	11	107	10
Other liabilities (incl. derivatives)	0	0	0	2	0
Guarantees provided	0	0	0	0	1
Interest income	0.0	24.1	1.3	0.2	2.0
Interest expenses	0.0	0.0	0.0	1.2	0.0
Net fee and commission income	0.0	0.0	0.0	12.7	0.5

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

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

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.

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

14 | Segment reporting

This information is based on the Group structure as of 30 September 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 related results are reported in the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective business units on the basis of where they are incurred. The overhead costs are assigned to the individual segments according to an allocation factor.

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

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

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

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

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

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

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

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

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

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

The segments in detail:

Jan–Sep 2016 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	258.6	81.8	58.9	101.7	41.4	1.9	544.3
Net fee and commission income	106.3	6.9	29.7	(0.1)	0.0	3.3	146.1
Core revenues	**364.9**	**88.7**	**88.6**	**101.6**	**41.4**	**5.2**	**690.4**
Gains and losses on financial instruments	0.8	8.0	1.1	(2.3)	11.1	31.9	50.6
Other operating income and expenses	1.0	(0.1)	0.0	0.0	0.0	1.2	2.1
Operating income	**366.7**	**96.6**	**89.7**	**99.3**	**52.5**	**38.3**	**743.1**
Operating expenses	**(201.8)**	**(23.3)**	**(38.7)**	**(20.0)**	**(12.0)**	**(22.3)**	**(318.1)**
Regulatory charges	(12.4)	(2.5)				(24.9)	(39.8)
Total risk costs	(26.6)	(1.9)	2.7	3.1	0.0	(2.2)	(24.9)
Share of the profit or loss of associates accounted for using the equity method						6.2	6.2
Profit before tax	**125.9**	**68.9**	**53.7**	**82.4**	**40.5**	**(4.9)**	**366.5**
Income taxes						13.5	13.5
Profit after tax	**125.9**	**68.9**	**53.7**	**82.4**	**40.5**	**8.6**	**380.0**
Non-controlling interests						(0.2)	(0.2)
Net profit	**125.9**	**68.9**	**53.7**	**82.4**	**40.5**	**8.4**	**379.8**
Business volumes							
Assets	9,293	3,053	7,647	4,954	5,905	3,545	34,397
Risk-weighted assets[1)]	3,676	2,541	2,868	3,731	1,868	1,269	15,953

1) Based on a fully loaded basis.

Jan–Sep 2015 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	248.7	35.3	77.0	105.4	43.1	29.5	539.0
Net fee and commission income	113.1	5.8	29.5	0.0	0.0	(3.6)	144.8
Core revenues	**361.8**	**41.1**	**106.5**	**105.4**	**43.1**	**25.9**	**683.8**
Gains and losses on financial instruments	4.5	0.0	3.7	(6.4)	0.9	25.7	28.4
Other operating income and expenses	1.0	0.3	0.0	0.0	0.0	6.2	7.5
Operating income	**367.3**	**41.4**	**110.2**	**99.0**	**44.0**	**57.8**	**719.7**
Operating expenses	**(224.7)**	**(17.2)**	**(42.1)**	**(17.7)**	**(14.8)**	**(24.2)**	**(340.7)**
Regulatory charges	(6.6)	0.0				(23.1)	(29.7)
Total risk costs	(25.4)	(1.8)	(3.9)	0.2	0.0	(3.7)	(34.6)
Share of the profit or loss of associates accounted for using the equity method						3.1	3.1
Profit before tax	**110.6**	**22.4**	**64.2**	**81.5**	**29.2**	**9.9**	**317.8**
Income taxes						(30.1)	(30.1)
Profit after tax	**110.6**	**22.4**	**64.2**	**81.5**	**29.2**	**(20.2)**	**287.7**
Non-controlling interests						0.0	0.0
Net profit	**110.6**	**22.4**	**64.2**	**81.5**	**29.2**	**(20.2)**	**287.7**
Business volumes							
Assets	9,255	418	8,415	5,317	6,519	3,148	33,072
Risk-weighted assets[1)]	3,971	390	3,478	4,565	1,908	1,488	15,800

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 tables.

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

in EUR million	**Jan–Sep 2016**	Jan–Sep 2015
Other operating income and expenses according to segment report	2.1	7.5
Regulatory charges	(38.5)	(28.5)
Other operating income and expenses according to consolidated profit or loss statement	**(36.4)**	**(21.0)**

in EUR million	**Jan–Sep 2016**	Jan–Sep 2015
Operating expenses according to segment report	(318.1)	(340.7)
Regulatory charges	(1.3)	(1.2)
Operating expenses according to consolidated profit or loss statement	**(319.4)**	**(341.9)**

15 | Capital management

Regulatory reporting is 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 30 September 2016 and 31 December 2015 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	Promontoria		BAWAG Holding	
in EUR million	**Sep 2016[4)]**	Dec 2015	**Sep 2016[4)]**	Dec 2015
Share capital and reserves (including funds for general banking risk)[1)]	2,573	2,837	2,680	2,988
Foreseeable dividend for 2015[1)]	(25)	(286)	0	(313)
Deduction of intangible assets	(179)	(116)	(179)	(116)
Other comprehensive income	(37)	(33)	(37)	(33)
IRB risk provision shortfalls[2)]	(26)	(20)	(26)	(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	(53)	(56)	(53)	(56)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences[3)]	(71)	(13)	(71)	(13)
Excess of deduction from AT1 items over AT1 capital	(128)	(189)	(128)	(189)
Common Equity Tier I	**2,054**	**2,124**	**2,186**	**2,248**
IRB risk provision shortfalls[2)]	(9)	(15)	(9)	(15)
Deduction of intangible assets	(119)	(174)	(119)	(174)
Excess of deduction from AT1 items over AT1 capital	128	189	128	189
Additional Tier I	–	–	–	–
Tier I	**2,054**	**2,124**	**2,186**	**2,248**
Supplementary and subordinated debt capital	467	477	467	477
Excess IRB risk provisions	43	16	43	16
Less significant investments, IRB risk provision shortfalls[2)]	(29)	(36)	(29)	(36)
Tier II	**481**	**457**	**481**	**457**
Own funds	**2,535**	**2,581**	**2,667**	**2,705**

1) Dividends for 2015: In the third quarter 2016, BAWAG Holding paid a dividend of EUR 309 million to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding GmbH. Promontoria Sacher Holding N.V. paid a dividend of EUR 265 million to its shareholders. Another EUR 25 million have not yet been paid but deducted from CET1 as a foreseeable dividend.
2) September 2016: According to CRR, LLPs as of 31 December 2015 including disposals until 30 September 2016.
3) For the changes in deferred tax assets that rely on future profitability excluding those arising from temporary differences, please see the description on page 29.
4) Own funds as of 30 September 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	Sep 2016	Dec 2015	Sep 2016	Dec 2015
Credit risk[1)]	14,291	14,751	14,287	14,747
Market risk	71	97	71	97
Operational risk	1,633	1,620	1,633	1,620
Capital requirements (risk-weighted assets)	**15,995**	**16,468**	**15,991**	**16,464**

1) Prior year's figures were adjusted due to the reclassification of Holding customers.

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

	Promontoria		BAWAG Holding[1)]	
	Sep 2016	Dec 2015[2)]	Sep 2016	Dec 2015[2)]
Common Equity Tier I capital ratio based on total risk	15.6%	12.2%	15.7%	12.9%
Total capital ratio based on total risk	18.7%	15.0%	18.8%	15.8%

1) Figures as shown in the Interim Group Management Report.
2) Prior year's figures were adjusted due to the reclassification of Holding customers.

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	Sep 2016	Dec 2015[1)]	Sep 2016	Dec 2015[1)]
Common Equity Tier I capital ratio based on total risk	12.8%	n/a	13.7%	n/a
Total capital ratio based on total risk	15.9%	n/a	16.7%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	16.0%	12.9%	16.1%	13.7%
Total capital ratio based on total risk (incl. interim profit)	19.0%	15.7%	19.1%	16.4%

1) Prior year's figures were adjusted due to the reclassification of Holding customers.

16 | Fair value

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

in EUR million	Carrying amount Sep 2016	Fair value Sep 2016	Carrying amount Dec 2015	Fair value Dec 2015
Assets				
Cash reserves	836	836	809	809
Financial assets designated at fair value through profit or loss	203	203	303	303
Available-for-sale financial assets				
Recognized at fair value	2,906	2,906	2,665	2,665
Recognized at cost	80	n/a	80	n/a
Held-to-maturity investments	2,163	2,292	2,290	2,369
Financial assets held for trading	817	817	950	950
Loans and receivables	25,815	25,953	27,396	27,543
Hedging derivatives	841	841	469	469
Property, plant and equipment	54	n/a	59	n/a
Investment properties	3	6	4	6
Intangible non-current assets	337	n/a	329	n/a
Other assets	342	n/a	345	n/a
Assets in disposal groups	–	n/a	9	n/a
Total assets	**34,397**		**35,708**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	1,068	1,068	1,269	1,269
Financial liabilities held for trading	807	807	1,071	1,071
Financial liabilities at amortized cost	27,953	28,240	28,514	28,755
Financial liabilities associated with transferred assets	–	n/a	621	621
Valuation adjustment on interest rate risk hedged portfolios	327	327	169	169
Hedging derivatives	217	217	106	106
Provisions	421	n/a	419	n/a
Other obligations	575	n/a	582	n/a
Obligations in disposal groups	0	n/a	0	n/a
Equity	3,027	n/a	2,956	n/a
Non-controlling interests	2	n/a	1	n/a
Total liabilities and equity	**34,397**		**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 the line items Held to maturity investments and Loans and receivables are measured at amortized cost. Therefore, their book value does not include unrealized gains in the amount of EUR 168 million. Furthermore, own issues recognized in the line item Financial liabilities designated at amortized cost do not include unrealized losses in the amount of EUR 296 million.

Fair value hierarchy

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

- **Level 1:** The value of financial instruments is measured using a quoted price without adjustment. This includes government bonds, bonds with quoted prices and exchange-traded derivatives.
- **Level 2:** The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.
- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid structured securitization instruments whose value is determined by unobservable assumptions (the outcome of litigation, investor decisions, trigger events, etc.), certain equity instruments 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.

Sep 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	199	1	0	203
Available-for-sale financial assets	2,823	82	1	80	2,986
Financial assets held for trading	0	817	0	0	817
Hedging derivatives	0	841	0	0	841
Total fair value assets	**2,826**	**1,939**	**2**	**80**	**4,847**
Liabilities					
Financial liabilities designated at fair value through profit or loss	0	644	424	0	1,068
Financial liabilities held for trading	0	807	0	0	807
Valuation adjustment on interest rate risk hedged portfolios	0	327	0	0	327
Hedging derivatives	0	217	0	0	217
Total fair value liabilities	**0**	**1,995**	**424**	**0**	**2,419**

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 three quarters 2016, seven available-for-sale securities were moved from Level 1 to Level 2 due to subsequent illiquid 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	1	0
Redemptions	(1)	0	(42)
Sales	0	(4)	0
Foreign exchange differences	0	0	0
Transfers into or out of Level 3	0	0	0
Closing balance as of 30.09.2016	**1**	**1**	**424**

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2015	**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 three quarters 2016, the financial liabilities reported under Level 3 in 2015 decreased by a total of EUR 44 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 2 million as of 30 September 2016. If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 30 September 2016 would have increased by EUR 2.3 million (31 December 2015: EUR 2.9 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 30 September 2016 would have decreased by EUR 0.6 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 Group 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 Group.

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

- Strategic Risk
- Commercial and Institutional Risk
- Retail Risk and Administration
- European 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 Group's risk situation and the risk management of the individual risk types using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, their impact on the Group as well as their coverage through existing risk management procedures. The quantification of these risks is considered in the risk bearing capability.

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

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

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

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

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

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

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

- Operational risk: The operational risk is quantified using a value-at-risk model.
- Other risks: This risk category includes participation risk, macroeconomic risk, strategic risk, reputation risk, capital risk, 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 Oesterreichische Nationalbank (OeNB, the Austrian national bank). For all other mentioned risk types, the required economic capital is quantified using simplified valuation models.

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

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

The link between the 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.

18 | Credit risk

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

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

The European retail portfolio consists of a UK mortgage portfolio that was acquired in the fourth quarter of 2015. As of September 2016, the outstanding balance amounted to GBP 1.6 billion. The portfolio has an average LTV of 51%.

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

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

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

Business segment development in the first three quarters 2016

The Group'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 three quarters 2016, BAWAG P.S.K. Retail experienced further growth in consumer financing. Significant efforts were put in place to enhance overall underwriting standards through automated and continuously enhanced underwriting models as well as strong collateral coverage. The Group's new mortgage originations have an average LTV of 74% and an overall portfolio LTV of 65%.

easygroup includes our direct banking subsidiary *easybank*, our auto and mobile leasing platforms as well as the lending activities to our international retail clients. The overall portfolio performance of international retail and associated risk costs remained stable at an average LTV of 51%.

The risk policy of easygroup will continue to be characterized by conservative, low-risk appetite with an emphasis on risk-adjusted returns. Credit decisions are primarily based on automated scoring methods that use proven mathematical and statistical methods that are continuously enhanced. The decision-making processes as well as the lending guidelines are closely aligned to the given framework of the risk organization of BAWAG P.S.K.

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

The segments DACH Corporates & Public Sector as well as International Business were characterized by proactive risk management, disciplined growth in developed markets and maintaining a disciplined approach on risk-adjusted pricing. Consequently, exposures with unfavorable risk profiles (i.e. "watch loans") are being actively managed and reduced within the Group's early warning process.

The Treasury Services & Markets segment includes interest rate and currency risk positions as well as capital market activities and comprises the Group's portfolio of debt securities. The investment strategy continues to focus on investment grade securities predominantly representing unsecured and secured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures.

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

BREXIT[1)] is still a topic being followed closely and will remain relevant during the coming years. Based on our stable and conservative business model, we are of the opinion that BREXIT will only have a limited impact on the Bank. In the securities portfolio, market risks are mainly hedged while marginal sensitivities are expected from an economic perspective. A moderate overall impact is expected on corporate credit risks due to either the individual credit quality of the borrowers, their geographic diversification or the nature of the industries they operate in. A moderate overall impact is envisaged on retail credit risks (UK mortgage portfolio) due to the seasoned pool of loans that withstood the 2008–09 downturn in the housing market, the matured LTV profile of the portfolio and the geographic diversification of the underlying collateral. House prices have remained resilient so far since the BREXIT vote – the house price index was essentially flat in the third quarter 2016.

1) United Kingdom's exit from the European Union.

Credit risk and bonds by business segment

Sep 2016 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	9,156	3,068	7,095	4,620	855	354	25,148
Bonds	0	0	530	334	5,050	21	5,935
Off-balance business	1,410	1,918	930	0	0	865	5,123
Total	**10,566**	**4,986**	**8,555**	**4,954**	**5,905**	**1,240**	**36,206**
thereof collateralized[1)]	6,041	2,596	2,528	1,767	193	1	13,126
thereof NPL (incl. LLP, gross view)[2)]	213	82	53	0	0	255	603
NPL ratio[2)]	2.3%	2.7%	0.7%	0.0%	n/a	n/a	2.3%
NPL coverage ratio[2)]	94.6%	98.5%	100.0%	0.0%	n/a	n/a	58.2%

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.

Dec 2015 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	9,036	3,630	6,935	5,133	1,424	423	26,581
Bonds	0	0	557	615	4,869	22	6,063
Off-balance business	1,394	443	501	744	0	855	3,937
Total	**10,430**	**4,073**	**7,993**	**6,492**	**6,293**	**1,300**	**36,582**
thereof collateralized[1)]	6,051	3,067	2,625	1,258	244	24	13,269
thereof NPL (incl. LLP, gross view)[2)]	204	44	85	0	0	256	588
NPL ratio[2)]	2.0%	1.1%	0.7%	0.0%	n/a	n/a	2.1%
NPL coverage ratio[2)]	97.1%	100.0%	100.0%	100.0%	n/a	n/a	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.

Sep 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
BAWAG P.S.K. Retail	9,156	0	9,156	146	9,301
easygroup	3,068	0	3,068	22	3,090
DACH Corporates & Public Sector	7,435	190	7,625	22	7,647
International Business	4,788	166	4,954	0	4,954
Treasury Services & Markets	1,026	4,879	5,905	0	5,905
Corporate Center	343	32	375	3,125	3,500
Total	**25,815**	**5,267**	**31,083**	**3,315**	**34,397**

1) Shares and other variable-rate securities (Sep 2016: EUR 4 million, Dec 2015: EUR 5 million) are not included.

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
BAWAG P.S.K. Retail	9,036	0	9,036	142	9,178
easygroup	3,630	0	3,630	15	3,644
DACH Corporates & Public Sector	7,289	203	7,492	35	7,527
International Business	5,429	319	5,748	0	5,748
Treasury Services & Markets	1,595	4,698	6,293	0	6,293
Corporate Center	418	28	446	2,871	3,317
Total	**27,396**	**5,249**	**32,645**	**3,062**	**35,708**

1) Shares and other variable-rate securities (Sep 2016: EUR 4 million, Dec 2015: EUR 5 million) are not included.

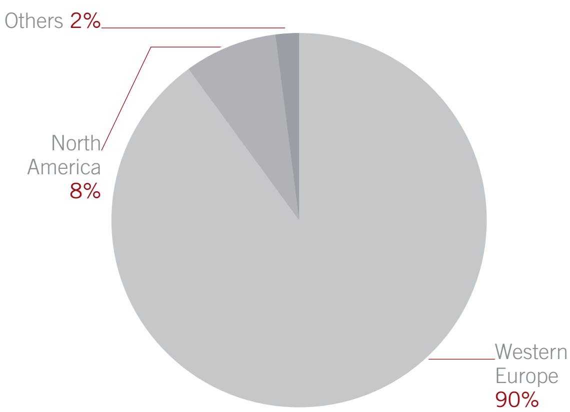
Geographical distribution of the loan and bond portfolio

The geographic distribution of the loan portfolio is in line with the Group's strategy to focus on stable geographies and currencies. A total of 98% of the loan portfolio[1] and 83% of the bond portfolio[2] is located in Western Europe and North America.

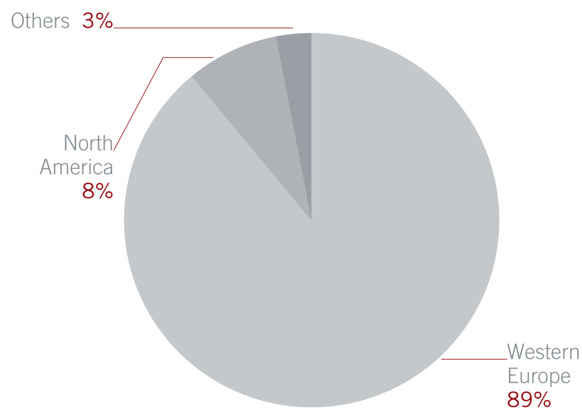
1) This includes i.a. Austria with 67% (Dec 2015: 65%), Great Britain with 12% (Dec 2015: 14%), the United States with 8% (Dec 2015: 8%), Germany with 4% (Dec 2015: 4%) and France with 2% (Dec 2015: 1%).
2) This includes i.a. Great Britain with 16% (Dec 2015: 13%), the United States with 13% (Dec 2015: 14%), Austria with 12% (Dec 2015: 12%), France with 7% (Dec 2015: 8%) and Germany with 4% (Dec 2015: 5%).

Geographical distribution of loans

30.09.2016

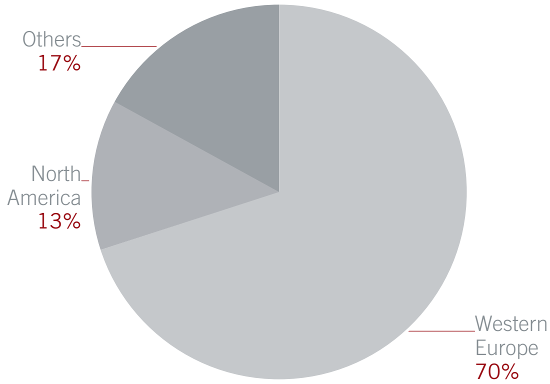


31.12.2015

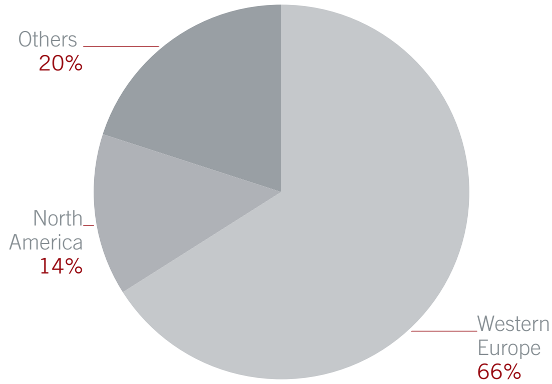


Geographical distribution of bonds

30.09.2016



31.12.2015



Credit portfolio and bonds by currency

Consistent with the Group'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 Group.

	Book value		Relative value	
in EUR million	**Sep 2016**	Dec 2015	**Sep 2016**	Dec 2015
EUR	23,735	24,202	76.4%	74.1%
GBP	1,963	3,775	6.3%	11.6%
USD	2,255	2,473	7.2%	7.6%
CHF	2,908	2,109	9.4%	6.5%
Others	222	87	0.7%	0.3%
Total	**31,083**	**32,645**	**100.0%**	**100.0%**

Impaired loans

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

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

Automatic impairment provision
Loan-loss provisions are booked automatically in the core banking system 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 Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 30 September 2016, the IBNR portfolio provision (incl. for off-balance-sheet items) amounted to EUR 44.3 million (31 December 2015: EUR 50.7 million).

Non-performing loans (NPLs)

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

Forborne loans and forbearance measures

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

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

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

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

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

Risk concentrations by industry segment

	Book value		Relative value	
in EUR million	Sep 2016	Dec 2015	Sep 2016	Dec 2015
Government	2,563	2,342	20.4%	17.7%
Public Sector	1,954	1,733	15.6%	13.1%
Real Estate	1,712	1,521	13.7%	11.5%
Portfolio	1,198	1,769	9.6%	13.4%
Services	782	704	6.2%	5.3%
Pharmaceuticals & Health Care	607	759	4.8%	5.7%
B-2-C Products	450	462	3.6%	3.5%
Automotive	334	351	2.7%	2.7%
Retail – Food	356	370	2.8%	2.8%
Telecommunication	210	367	1.7%	2.8%
Gaming & Leisure	351	465	2.8%	3.5%
Transport	309	318	2.5%	2.4%
Commodity	218	298	1.7%	2.3%
Investment Funds	118	275	0.9%	2.1%
Hotels	176	0	1.4%	0.0%
Wood & Paper	203	172	1.6%	1.3%
Banks	138	157	1.1%	1.2%
Social Housing	138	142	1.1%	1.1%
Engineering and B-2-B	234	163	1.9%	1.2%
Chemicals	109	126	0.9%	1.0%
Beverages, Food & Tobacco	85	239	0.7%	1.8%
Construction & Building Materials	88	138	0.7%	1.0%
Media	52	94	0.4%	0.7%
Others	159	230	1.3%	1.7%
Total	**12,542**	**13,197**	**100.0%**	**100.0%**

19 | Market risk

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

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

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

In the trading book, only risk mitigating measures are performed if necessary. The monitoring within the framework of ICAAP is carried out using a parametric VaR model. In the first three quarters of 2016, the average value-at-risk of the trading book was measured at minus EUR 0.56 million (Jan–Sep 2015 average: minus EUR 0.79 million) and the value-at-risk as of 30 September 2016 was measured at minus EUR 0.69 million (31 December 2015: minus EUR 0.64 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

20 | Liquidity risk

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

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

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

The first three quarters 2016 were characterized by a solid liquidity position reflected by stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Additionally, the Bank once again underpinned its capital markets strength by successfully placing an international EUR 500 million mortgage covered bond.

21 | Operational risk

The Group 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 segments on the basis of revenues.

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

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

In June 2016, a new methodology – the so-called Key Risk Indicators (KRI) – was implemented. These KRIs allow for the identification of negative trends or a changed risk profile in a timely manner. Each KRI is monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate counter-measures is mandatorily required.

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

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