BAWAG Group

CONSOLIDATED INTERIM REPORT

H1 2017

KEY FIGURES

Profit or loss statement (in EUR million)	**Q2 2017**	Q2 2016	Change (%)	**Jan–Jun 2017**	Jan–Jun 2016	Change (%)
Net interest income	198.7	191.0	4.0	395.4	376.3	5.1
Net fee and commission income	56.3	52.1	8.1	106.1	103.0	3.0
Core revenues	**255.0**	**243.1**	**4.9**	**501.5**	**479.3**	**4.6**
Gains and losses on financial instruments and other operating income and expenses	1.3	11.6	(88.8)	19.7	25.8	(23.6)
Operating income	**256.3**	**254.7**	**0.6**	**521.2**	**505.1**	**3.2**
Operating expenses	**(110.5)**	**(111.2)**	**(0.6)**	**(217.6)**	**(215.2)**	**1.1**
Regulatory charges	(2.9)	(17.5)	(83.4)	(28.1)	(34.0)	(17.4)
Total risk costs	(15.6)	(7.2)	>100	(26.7)	(15.9)	67.9
Profit before tax	**128.0**	**122.7**	**4.3**	**250.6**	**244.4**	**2.5**
Income taxes	(20.6)	(21.4)	(3.7)	(47.1)	39.3	–
Net profit	**107.4**	**101.2**	**6.1**	**203.5**	**283.5**	**(28.2)**

Performance ratios (figures annualized)	**Q2 2017**	Q2 2016	Change (pts)	**Jan–Jun 2017**	Jan–Jun 2016	Change (pts)
Return on equity	13.1%	14.1%	(1.0)	12.6%	19.3%	(6.7)
Return on equity (@12% CET1)	**16.6%**	**16.4%**	**0.2**	**15.7%**	**21.7%**	**(6.0)**
Return on tangible equity	14.7%	16.0%	(1.3)	14.2%	21.8%	(7.6)
Return on tangible equity (@12% CET1)	**19.3%**	**18.9%**	**0.4**	**18.3%**	**24.9%**	**(6.6)**
Net interest margin	2.23%	2.44%	(0.21)	2.23%	2.38%	(0.15)
Cost-income ratio	43.1%	43.7%	(0.6)	41.7%	42.6%	(0.9)
Risk costs / loans and receivables	0.19%	0.11%	0.08	0.17%	0.12%	0.05

Statement of financial position (in EUR million)	**Jun 2017**	Dec 2016	Change (%)	Jun 2016	Change (%)
Total assets	39,716	39,743	(0.1)	34,729	14.4
Financial assets	6,063	6,416	(5.5)	6,586	(7.9)
Customer loans and receivables	28,003	28,494	(1.7)	23,728	18.0
Customer deposits	25,359	25,998	(2.5)	22,131	14.6
Own issues	5,967	6,015	(0.8)	4,882	22.2
IFRS equity (after dividend)	3,348	3,134	6.8	2,911	15.0
IFRS tangible equity (after dividend)	2,978	2,773	7.4	2,578	15.5
Risk-weighted assets	16,917	17,140	(1.3)	15,663	8.0

Balance sheet ratios	**Jun 2017**	Dec 2016	Change (pts)	Jun 2016	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**16.5%**	**15.1%**	**1.4**	**15.1%**	**1.4**
Total capital ratio (fully loaded)	19.3%	18.0%	1.3	18.1%	1.2
Leverage ratio (fully loaded)	7.0%	6.5%	0.5	6.6%	0.4
Liquidity coverage ratio (LCR)	146%	138%	8	141%	5
NPL ratio	1.9%	1.7%	0.2	2.0%	(0.1)

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 65.

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Disclaimer:

Certain statements contained in this interim report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

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

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The tables in this report may contain rounding differences.

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

LETTER FROM THE CEO

Dear Stakeholders,

We delivered strong results in the first half 2017, with profit before tax coming in at EUR 251 million, up 3% compared to the first half 2016. The strong results were driven by higher operating income, up 3% compared to the first half 2016. Our higher operating expenses were driven by fully absorbing our acquisitions that we completed during the fourth quarter 2016. We also had to front-load regulatory charges during the first half 2017, which accounts for approximately 90% of total regulatory charges anticipated for the full year. Our operating expenses are expected to decrease as integration efforts from these acquisitions are realized through the course of the year. For comparison purposes, we focus on pre-tax profit as net profit during 2016 was significantly impacted by a one-time net tax benefit booked during the first half 2016. We expect our deferred tax assets on tax loss carryforwards to be fully absorbed over the course of the next 18–24 months.

With a return on tangible equity (@12% CET1) of 18.3%, a cost-income ratio of 41.7% and a fully loaded CET1 ratio of 16.5%, 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 17 basis points and a largely stable NPL ratio of 1.9%. At the same time, we further strengthened our capital position during the first half 2017, improving our fully loaded CET1 and total capital ratios to 16.5% (up 140 basis points) and 19.3% (up 130 basis points), respectively, compared to year-end 2016.

Our strong first half 2017 was also characterized by solid operational developments. The investments in our retail franchise continue to pay off. The BAWAG P.S.K. Retail segment recorded new originations of EUR 698 million, driven primarily by consumer and housing loans. In addition to growing our consumer loan franchise and further optimizing our product mix, we continued to make progress in transforming to digital and driving transactional productivity. Compared to the first half 2016, the number of online payment transactions increased by 7% and the share of online transactions via our mobile apps increased by 55%. During the same period, the number of over-the-counter transactions decreased by 13%, reflecting the changing composition of overall payments and the migration to digital, which represents the continued significant shift in customer behavior that we have observed over the past few years. Our complete line of products offered through digital channels makes us a leader in the marketplace, and we continue to enhance our customer experience and personalization features across our various distribution channels. Our efforts are being rewarded with increasing usage by our customers. As an example, a total of 63% of all logins to our eBanking come from mobile devices, up 8 points from June 2016.

easygroup, comprising *easybank*, one of the leading direct banks in Austria, our auto and mobile leasing business, and our residential mortgage portfolios in Western Europe, further increased its customer base and executed on several strategic initiatives. The integration of our auto leasing platforms, together with various strategic partnerships, provides easygroup with yet another platform to expand its market presence, brand awareness and best-in-class service offering to a range of new customers and segments. During the first half 2017, we recorded strong originations of EUR 200 million in consumer auto leasing. We have created a highly efficient, customer-focused organization with the new *easyleasing* brand as our “one brand and one face” to the leasing market in Austria. In February 2017, we signed an agreement to acquire the commercial card issuing business of SIX Payment Services Austria. The acquisition will not only be value accretive day 1, but we will look to continue using their partnerships and distribution channels to further grow our customer franchise in Austria and abroad. Lastly, easygroup achieved regulatory clearance during first half 2017 to open a branch in Germany, with a plan to begin originating loans in the second half of the year. Overall, easygroup is well positioned to further develop its asset origination capabilities, both domestically and internationally.

The focus of the DACH Corporates & Public Sector business continues to be on maintaining and acquiring sustainable customer relationships, while staying disciplined on risk-adjusted pricing despite the competitive landscape. Our International Business segment continues to be focused on international corporate, real estate and portfolio financing outside the DACH region, serviced from our London office. Both the DACH Corporates & Public Sector segment and the International Business segment maintained their disciplined approach to originating new business with appropriate risk-adjusted returns. Overall, these two business segments originated EUR 1.1 billion of new business during the first half 2017.

In addition to our strong first half operating results, we recently announced another highlight on the M&A front. In mid-July, we successfully signed the acquisition of Südwestbank, a regional bank with over EUR 7 billion assets and approximately 100,000 retail and business customers headquartered in Stuttgart, Germany. The expertise and long-standing tradition of Südwestbank in Baden-Württemberg, an economically strong region, make the bank an ideal partner to help us expand our footprint and customer base in Germany. This transaction is part of our larger DACH regional strategy and will provide us access to excellent customers in a highly attractive market.

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

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

The European banking landscape is currently undergoing a significant transformation and faces severe headwinds in the form of low growth, low interest rates, increased regulatory costs, structurally inefficient business models and new market entrants in the form of Fintechs. Our continued strong operating results in the first half 2017 reiterate that BAWAG P.S.K. is well positioned to win in this competitive environment. We will continue to maintain our low-risk strategy focused on the DACH region, with Austria as our foundation, while providing our customers with simple, transparent and best-in-class products and services.

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

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

Interim Group Management Report

FINANCIAL REVIEW

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

A few **key highlights** include:

- Profit before tax came in at EUR 250.6 million, up 2.5% compared to the first half 2016. These strong results were driven by higher operating income, up 3.2% compared to the first half 2016.
- Return on tangible equity (@12% CET1) was 18.3% in the first half 2017.
- Net interest income rose 5.1% to EUR 395.4 million compared to the first half 2016, despite a continued low-interest rate environment.
- The net interest margin in the second quarter remained stable at 2.23% compared to the first quarter, reflecting our dedicated focus on risk-adjusted pricing and optimizing the liability structure.
- Our higher operating expenses in the first half 2017 were driven by fully absorbing our acquisitions that we completed during the fourth quarter 2016. We also had to front-load regulatory charges during the first half 2017, which accounts for approximately 90% of total regulatory expenses anticipated for the full year.
- Despite higher operating expenses, the cost-income ratio in the first half 2017 further improved by 0.9 points to 41.7%. Our operating expenses are expected to decrease as integration efforts from the acquisitions completed during the fourth quarter 2016 are realized through the course of the year.
- We continue to maintain a conservative risk profile characterized by disciplined underwriting, low leverage and a business model focused on developed markets in Austria and Western Europe. This is best reflected in a risk cost ratio of 17 basis points and an NPL ratio of 1.9% as of June 2017.
- We further strengthened our capital position during the first half 2017, improving our fully loaded CET1 and total capital ratios to 16.5% (up 140 basis points) and 19.3% (up 130 basis points), respectively, compared to year-end 2016.

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in EUR million	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Interest income	266.9	262.1	1.8	548.9	528.6	3.8
Interest expense	(75.0)	(73.0)	2.7	(160.3)	(154.3)	3.9
Dividend income	6.8	1.9	>100	6.8	2.0	>100
Net interest income	**198.7**	**191.0**	**4.0**	**395.4**	**376.3**	**5.1**
Fee and commission income	71.0	67.2	5.7	142.8	140.8	1.4
Fee and commission expenses	(14.7)	(15.1)	(2.6)	(36.7)	(37.8)	(2.9)
Net fee and commission income	**56.3**	**52.1**	**8.1**	**106.1**	**103.0**	**3.0**
Core revenues	**255.0**	**243.1**	**4.9**	**501.5**	**479.3**	**4.6**
Gains and losses on financial instruments and other operating income and expenses[1]	1.3	11.6	(88.8)	19.7	25.8	(23.6)
Operating income	**256.3**	**254.7**	**0.6**	**521.2**	**505.1**	**3.2**
Operating expenses[1]	**(110.5)**	**(111.2)**	**(0.6)**	**(217.6)**	**(215.2)**	**1.1**
Regulatory charges	(2.9)	(17.5)	(83.4)	(28.1)	(34.0)	(17.4)
Operating profit	**142.9**	**126.0**	**13.4**	**275.5**	**255.9**	**7.7**
Provisions and loan-loss provisions	(10.9)	(5.6)	94.6	(21.3)	(12.7)	67.7
Impairment losses	(0.4)	(0.8)	(50.0)	(0.4)	(0.8)	(50.0)
Operational risk	(4.3)	(0.8)	>100	(5.0)	(2.4)	>100
Share of the profit or loss of associates accounted for using the equity method	0.7	3.9	(82.1)	1.8	4.3	(58.1)
Profit before tax	**128.0**	**122.7**	**4.3**	**250.6**	**244.4**	**2.5**
Income taxes	(20.6)	(21.4)	(3.7)	(47.1)	39.3	–
Profit after tax	**107.4**	**101.3**	**6.0**	**203.5**	**283.7**	**(28.3)**
Non-controlling interests	0.0	(0.1)	(100)	0.0	(0.2)	(100)
Net profit	**107.4**	**101.2**	**6.1**	**203.5**	**283.5**	**(28.2)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 27.1 million for the first half 2017. The item Operating expenses includes regulatory charges in the amount of EUR 1.0 million for the first half 2017 as well. However, the Bank's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

Profit before tax increased by EUR 6.2 million, or 2.5%, to EUR 250.6 million in the first half 2017. The increase in operating income was partly offset by higher risk costs.

Net interest income increased by EUR 19.1 million, or 5.1%, to EUR 395.4 million in the first half 2017.

Compared to the first quarter 2017, the **net interest margin** remained stable at 2.23%.

Net fee and commission income increased by EUR 3.1 million, or 3.0%, compared to the first half 2016 and amounted to EUR 106.1 million.

Gains and losses on financial instruments and other operating income and expenses decreased by EUR 6.1 million, or 23.6%, to EUR 19.7 million in the first half 2017.

Operating expenses increased by EUR 2.4 million, or 1.1%, to EUR 217.6 million in the first half 2017, which was mainly driven by newly acquired businesses and restructuring expenses.

The **cost-income ratio** decreased by 0.9 points to 41.7% compared to the first half 2016.

Provisions and loan-loss provisions increased by EUR 8.6 million to EUR 21.3 million in the first half 2017.

Income taxes in the first half 2017 amounted to EUR 47.1 million. The figure shown for the first half 2016 is not comparable as it included a EUR 95.8 million one-time tax benefit.

Total assets

in EUR million	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Cash reserves	887	1,020	(13.0)	533	66.4
Financial assets	6,063	6,416	(5.5)	6,586	(7.9)
Available-for-sale	3,043	3,209	(5.2)	2,990	1.8
Held-to-maturity	2,319	2,353	(1.4)	2,328	(0.4)
Held for trading	510	652	(21.8)	1,036	(50.8)
Fair value through profit or loss	191	202	(5.4)	232	(17.7)
Loans and receivables	31,445	30,821	2.0	25,967	21.1
Customers	28,003	28,494	(1.7)	23,728	18.0
Debt instruments	1,325	692	91.5	903	46.7
Credit institutions	2,117	1,635	29.5	1,336	58.5
Hedging derivatives	590	677	(12.9)	820	(28.0)
Tangible non-current assets	53	56	(5.4)	59	(10.2)
Intangible non-current assets	370	360	2.8	333	11.1
Tax assets for current taxes	6	10	(40.0)	6	–
Tax assets for deferred taxes	163	203	(19.7)	234	(30.3)
Other assets	139	180	(22.8)	191	(27.2)
Total assets	**39,716**	**39,743**	**(0.1)**	**34,729**	**14.4**

Financial assets decreased by EUR 353 million, or 5.5%, compared to year-end 2016, amounting to EUR 6,063 million as of 30 June 2017.

Loans and receivables with customers decreased by EUR 491 million, or 1.7%, and stood at EUR 28,003 million as of 30 June 2017.

Tax assets for deferred taxes decreased by EUR 40 million net, or 19.7%, to EUR 163 million due to the usage of deferred tax assets on tax loss carryforwards.

Total liabilities and equity

in EUR million	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Total liabilities	**36,367**	**36,607**	**(0.7)**	**31,503**	**15.4**
Financial liabilities	35,068	34,694	1.1	29,981	17.0
Fair value through profit or loss	847	1,115	(24.0)	1,141	(25.8)
Issued securities	847	1,115	(24.0)	1,141	(25.8)
Held for trading	405	617	(34.4)	965	(58.0)
At amortized cost	33,816	32,962	2.6	27,875	21.3
Customers	25,359	25,998	(2.5)	22,131	14.6
Issued securities	5,120	4,900	4.5	3,741	36.9
Credit institutions	3,337	2,064	61.7	2,003	66.6
Financial liabilities associated with transferred assets	–	300	(100)	–	–
Valuation adjustment on interest rate risk hedged portfolios	135	223	(39.5)	314	(57.0)
Hedging derivatives	140	260	(46.2)	214	(34.6)
Provisions	366	404	(9.4)	431	(15.1)
Tax liabilities for current taxes	21	19	10.5	7	>100
Tax liabilities for deferred taxes	33	27	22.2	–	100
Other obligations	604	680	(11.2)	556	8.6
Total equity	**3,349**	**3,136**	**6.8**	**3,226**	**3.8**
Shareholders' equity	3,348	3,134	6.8	3,224	3.8
Non-controlling interests	1	2	(50.0)	2	(50.0)
Total liabilities and equity	**39,716**	**39,743**	**(0.1)**	**34,729**	**14.4**

Deposits from customers decreased by EUR 639 million, or 2.5%, to EUR 25,359 million as of 30 June 2017, but showed an increase of EUR 3,228 million, or 14.6%, compared to 30 June 2016.

Issued securities at amortized cost increased by EUR 220 million, or 4.5%, to EUR 5,120 million as of 30 June 2017.

Total equity increased by EUR 213 million, or 6.8%, to EUR 3,349 million as of 30 June 2017. The change was mainly driven by the net profit for the first half 2017.

CAPITAL AND LIQUIDITY POSITION

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. The fully loaded capital ratios have further improved since 31 December 2016, with the CET1 ratio increasing from 15.1% to 16.5% (up 140 basis points) and the total capital ratio increasing from 18.0% to 19.3% (up 130 basis points) as of 30 June 2017. At the same time, we maintained an RWA density of 43%, a conservative ratio relative to our European peers.

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

BAWAG P.S.K. maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 146% at the end of the first half 2017.

KEY PERFORMANCE INDICATORS

in EUR million	**Q2 2017**	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net interest income	198.7	196.8	177.6	176.1	191.0
Net fee and commission income	56.3	49.8	46.9	43.1	52.1
Core revenues	255.0	246.6	224.5	219.2	243.1
Operating income	256.3	265.0	247.4	238.1	254.7
Operating expenses	(110.5)	(107.2)	(121.3)	(102.9)	(111.2)
Total risk costs	(15.6)	(11.1)	(17.8)	(9.0)	(7.2)
Profit before tax	128.0	122.6	103.9	122.2	122.7
Net profit	107.4	96.1	103.8	96.3	101.2

(figures annualized)					
Return on equity	13.1%	12.1%	13.5%	13.0%	14.1%
Return on equity (@12% CET1)	16.6%	14.8%	16.5%	15.9%	16.4%
Return on tangible equity	14.7%	13.6%	15.2%	14.6%	16.0%
Return on tangible equity (@12% CET1)	19.3%	17.2%	19.2%	18.4%	18.9%
Net interest margin	2.23%	2.23%	2.20%	2.30%	2.44%
Cost-income ratio	43.1%	40.5%	49.0%	43.2%	43.7%
Risk costs / loans and receivables	0.19%	0.14%	0.25%	0.14%	0.11%

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 65.

BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

Strategy

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

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

First Half 2017 Business Review

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

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

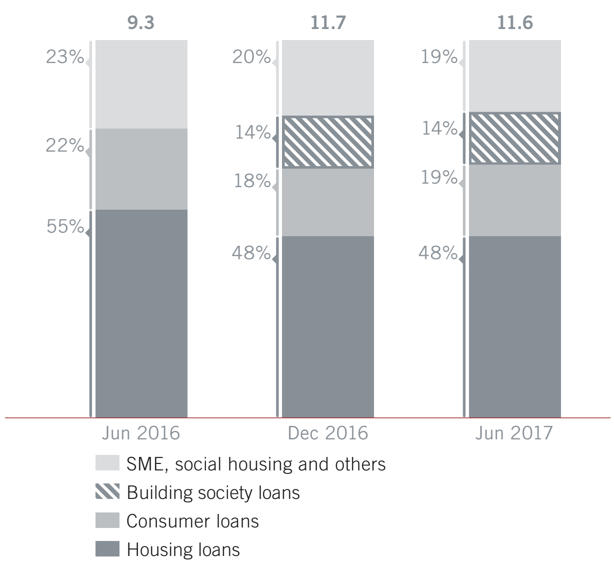
Growing our customer lending franchise

In the first half 2017, we continued to grow our consumer lending franchise by originating EUR 269 million of new consumer loans, which translates into net asset growth of 6% compared to a year ago. These results were delivered while maintaining our disciplined underwriting standards.

Our instant credit decisions in our branches, our automated workflow as well as the quality of our advisory and sales processes differentiate us from our competitors. Our continuous investment in data analytics provides a stable flow of relevant and contextual leads for our sales force for cross-selling to current customers and new customer acquisition. We are also continuously improving our digital online loan offering, resulting in a more than 20% higher average loan volume per online direct loan compared to last year.

We continue to see high customer interest in housing loans and are investing in our housing finance product platform. The market for home ownership and financing continues to grow domestically, and we are expanding our share with a complete product set and increased distribution for this critical relationship product. In the first half 2017, we originated EUR 324 million of new housing loans, up 32% from the prior year. The acquisition of start:bausparkasse in 2016 further strengthened our presence in this market.

Asset volume development (in EUR billion)

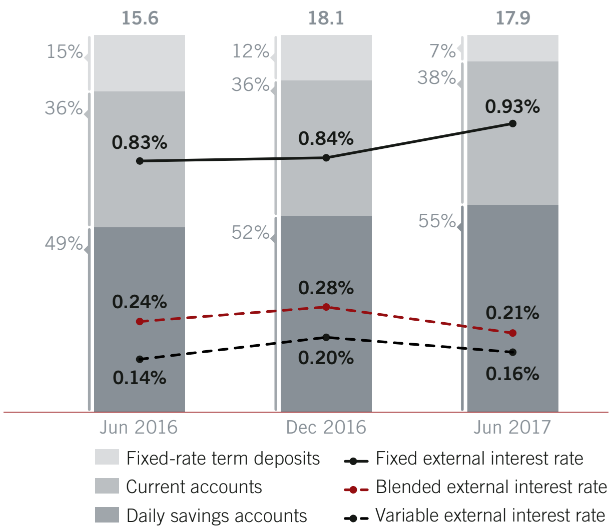


At the end of the first half 2017, the total assets of the BAWAG P.S.K. Retail segment stood at EUR 11.6 billion, with total new originations of EUR 698 million and net asset growth of 26% compared to June 2016, which includes the acquisition of start:bausparkasse and IMMO-BANK in December 2016.

Optimizing our product mix

On the liability side, we continued the shift from fixed-rate term deposits to current accounts and daily savings accounts, thus providing for lower funding costs, freeing up sales force capacity and providing our customers with products with greater functionality. Overall, the blended external interest rate on retail deposits stood at 0.21% at the end of the first half 2017. The increase of overall deposits compared to June 2016 reflects the acquisition of start:bausparkasse and IMMO-BANK.

Customer deposit volume development (in EUR billion)



We continue to reap the benefits of a major initiative concerning fee-generating products we launched in 2016. The new KontoBox (current accounts) models were well received by our customers, with a share of more than 63% of customers selecting our premium offerings in the first half 2017.

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

Driving organic productivity and inorganic growth

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

Driving efficiency in the core franchise

We have created a differentiated branch structure to concentrate advisory services in our core locations with the highest customer frequency, while maintaining service reach through a network of self-service devices and transaction points. This branch differentiation drives cost efficiency through better resource management and higher sales productivity. We also extended the local responsibility as well as broadened the product knowledge and sales capabilities of our advisors. The result of the transition has improved the cost-income ratio of the segment by 7.6 points to 47.7%.

The strong focus of our branch employees on advisory and sales is also supported by the ongoing shift of basic transactions to digital and self-service channels. Compared to the first half 2016, the number of online payment transactions increased by 7% and the share of online transactions via our mobile apps increased by 55%. During the same period, the number of over-the-counter transactions decreased by 13%, reflecting the changing composition of overall payments and the migration to digital representing a significant shift in customer behavior.

Our focus on sales efficiency, training and processes has significantly improved our sales productivity. In the first half 2017, our product sales per advisor increased by 11% compared to the prior year.

Capitalizing on inorganic growth opportunities

We are continuously evaluating various inorganic growth opportunities. In the first half 2017, we worked on the integration and onboarding of our new customers resulting from the acquisitions of start:bausparkasse and IMMO-BANK in the last quarter 2016. The start:bausparkasse brand and distribution network strengthen our housing loan product range offering and provide us with greater access to a profitable segment of the market.

Transforming to digital

We are focused on building our vision of a financial services platform to make all of our customers' financial lives easier. We continue to improve our online and mobile products and service offerings in order to create a great customer experience and better assist our customers in managing their financial affairs. Our history of successful partnerships will be enhanced in the digital platform environment as we continue to expand our partner offerings to all our customers along their financial journey.

In April 2017, we launched video legitimation (i.e. customer identification via video chat) for our new online loan customers. This convenient service allows for a full online loan opening process that can be performed anywhere and anytime with an online device in less than 15 minutes.

Furthermore, we broadened our digital offering with the launch of a fully automated process for opening brokerage accounts via our eBanking in February. This allows our customers to open a brokerage account within a few minutes and to start trading funds, bonds or stocks immediately. This new service was well received by our customers, with about 7% of our new brokerage accounts being opened via our online banking platform during the first half 2017.

Our digital offering makes us a leader in the marketplace, and we continue to enhance our customer experience and personalization features across our distribution channels. These efforts are being rewarded with increasing usage by our customers. As an example, a total of 63% of all logins to our eBanking come from mobile devices, up 8 points from June 2016. The Touch ID (fingerprint) login functionality for our mobile banking app, launched in December 2016 and early 2017, was also well received by our customers with approximately 1.7 million logins since its launch. Engagement with our customers allows us to better anticipate their needs and offer products and services at the appropriate time.

To support our customers in our digital world, we sent digital ambassadors to our branches and invited interested customers to an introduction tour through our online and mobile capabilities. To support the regional Fintech community as well as to find best-in-class digital solutions and talent, we were also represented at the recent "Bankathon" in Vienna, a programming challenge specifically for banking products and services where highly motivated teams created innovative prototype solutions.

Outlook

Over the next quarters, we will continue to enhance our overall service, advisory quality and customer experience by continuing to differentiate our branch structure, investing and unifying our front-end sales advice application and our leading digital services platform with special emphasis on our mobile capabilities.

Financial Results

Income metrics (in EUR million)	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Net interest income	99.0	86.5	14.5	197.5	169.4	16.6
Net fee and commission income	44.6	39.0	14.4	82.3	74.6	10.3
Core revenues	**143.6**	**125.5**	**14.4**	**279.8**	**244.0**	**14.7**
Gains and losses on financial instruments	0.0	0.0	–	0.8	0.8	–
Other operating income and expenses	0.6	0.3	100	1.1	1.0	10.0
Operating income	**144.2**	**125.8**	**14.6**	**281.7**	**245.8**	**14.6**
Operating expenses	**(64.2)**	**(67.1)**	**(4.3)**	**(134.4)**	**(136.0)**	**(1.2)**
Regulatory charges	(0.9)	(8.3)	(89.2)	(14.3)	(12.4)	15.3
Total risk costs	(5.6)	(9.4)	(40.4)	(16.5)	(17.3)	(4.6)
Profit before tax	**73.5**	**41.0**	**79.3**	**116.5**	**80.1**	**45.4**

Key ratios	Q2 2017	Q2 2016	Change (pts)	Jan–Jun 2017	Jan–Jun 2016	Change (pts)
Pre-tax return on equity	28.2%	19.6%	8.6	22.7%	18.8%	3.9
Pre-tax return on equity (@12% CET1)	35.7%	22.7%	13.0	28.4%	21.2%	7.2
Net interest margin	3.41%	3.75%	(0.34)	3.38%	3.67%	(0.29)
Cost-income ratio	44.5%	53.3%	(8.8)	47.7%	55.3%	(7.6)
Risk costs / loans and receivables	0.19%	0.41%	(0.22)	0.28%	0.38%	(0.10)
NPL ratio	2.1%	2.4%	(0.3)	2.1%	2.4%	(0.3)

Business volumes (in EUR million)	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Assets	11,632	11,659	(0.2)	9,256	25.7
Risk-weighted assets	4,471	4,432	0.9	3,785	18.1
Customer deposits	17,932	18,058	(0.7)	15,597	15.0
Own issues	2,924	2,990	(2.2)	2,561	14.2

The segment achieved a profit before tax of EUR 116.5 million in the first half 2017, up 45.4% compared to the same period last year, and delivered a pre-tax return on equity (@12% CET1) of 28.4% and a cost-income ratio of 47.7%. Higher core revenues (up 14.7%) were mainly contributed by our recent acquisitions of start:bausparkasse and IMMO-BANK in December 2016. The increase in regulatory charges in the first half stems from the accruals for the deposit guarantee scheme in the first quarter which represent full-year expenses.

Overall risk metrics reflect the high credit quality of the retail business, with a risk cost ratio of 28 basis points (down 10 basis points versus the first half 2016) and an NPL ratio of 2.1% (down 30 basis points versus June 2016).

EASYGROUP

Strategy

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

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

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

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

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

- *easybank*, one of the leading Austrian direct banks,
- the #3 auto lessor in Austria, *easyleasing*; and
- our international retail business, consisting of high-quality performing residential mortgages in Western Europe.

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

First Half 2017 Business Review

Compared to June 2016, easygroup's client base was up 8% to 426,000 customers and borrowers with 714,000 accounts. easygroup ended the first half 2017 with customer deposits of EUR 3.8 billion, up 2% since June 2016. Our strong results are due to four key pillars:

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

Growing our customer base and market share in Austria

easygroup continued to see an inflow of new customers and accounts in Austria. We saw an increase of 3% and 4%, respectively, compared to June 2016. Our customer growth is predominantly coming from our online channel and key partnerships. Partnerships such as those with ÖAMTC, Shell and Energie Steiermark give us indirect access to approximately half the Austrian population. As we go forward, we will look to leverage these relationships in order to further increase our customer base.

Overall, easygroup recorded strong originations of EUR 222 million in the first half 2017. This is comprised primarily of auto leases, consumer loans and mortgages. The performance was driven by our ability to provide customers with unique products, a best-in-class sales team, strong relationships and lean processes. We work with approximately 1,000 dealerships, representing roughly 50% of auto dealerships in Austria.

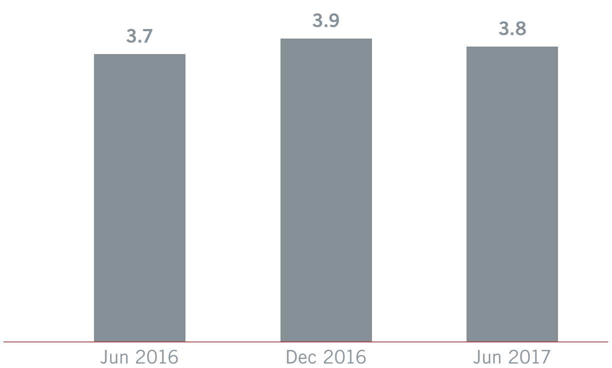
The segment's assets stood at EUR 4.1 billion at the end of the first half 2017, up 26% compared to June 2016. Both the domestic and international business continued to see strong growth.

In February 2017, we signed a deal to acquire the commercial card issuing business of SIX Payment Services Austria, better known as PayLife. Since signing this deal, we have made great strides in closing the transaction, including obtaining approval from the Austrian Competition Authority. We plan to merge the business into *easybank* during the second half of this year.

Building and maintaining customer loyalty

easybank has always been determined to offer its customers the best banking experience. We believe this helps drive customer loyalty. Since June 2016, *easybank*'s number of current and savings accounts has increased by 5%. Given the overall interest landscape, *easybank* reduced its external interest rate offered to customers, bringing our average deposit cost from 44 basis points in June 2016 to 7 basis points in June 2017.

Customer deposit volume development (in EUR billion)



As a testament to our commitment to our customer satisfaction, *easybank* was given an award by the Financial Marketing Association Austria (FMVÖ) for the seventh consecutive year in June. This association conducts a survey each year on customer satisfaction, in which *easybank* received a Net Promoter Score of 52%, the highest for any bank or insurance company.

Driving efficiency across the organization

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

Expanding internationally into Western European markets

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

Outlook

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

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

Financial Results

Income metrics (in EUR million)	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Net interest income	43.0	29.6	45.3	78.3	60.2	30.1
Net fee and commission income	2.7	2.4	12.5	5.4	4.6	17.4
Core revenues	**45.7**	**32.0**	**42.8**	**83.7**	**64.8**	**29.2**
Gains and losses on financial instruments	0.0	0.0	–	0.0	0.0	–
Other operating income and expenses	(0.4)	0.2	–	(0.5)	0.1	–
Operating income	**45.3**	**32.2**	**40.7**	**83.2**	**64.9**	**28.2**
Operating expenses	**(7.9)**	**(7.6)**	**3.9**	**(15.8)**	**(15.7)**	**0.6**
Regulatory charges	(1.2)	(1.7)	(29.4)	(2.4)	(2.5)	(4.0)
Total risk costs	3.7	(1.6)	–	5.7	(2.1)	–
Profit before tax	**39.9**	**21.3**	**87.3**	**70.7**	**44.6**	**58.5**

Key ratios	Q2 2017	Q2 2016	Change (pts)	Jan–Jun 2017	Jan–Jun 2016	Change (pts)
Pre-tax return on equity	38.9%	27.0%	11.9	34.7%	27.7%	7.0
Pre-tax return on equity (@12% CET1)	49.2%	31.3%	17.9	43.2%	31.2%	12.0
Net interest margin	4.10%	3.54%	0.56	3.67%	3.54%	0.13
Cost-income ratio	17.4%	23.6%	(6.2)	19.0%	24.2%	(5.2)
Risk costs / loans and receivables	(0.35)%	0.19%	(0.54)	(0.27)%	0.12%	(0.39)
NPL ratio	2.9%	3.0%	(0.1)	2.9%	3.0%	(0.1)

Business volumes (in EUR million)	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Assets	4,102	4,458	(8.0)	3,247	26.3
Risk-weighted assets	2,278	2,346	(2.9)	1,849	23.2
Customer deposits	3,761	3,893	(3.4)	3,673	2.4
Own issues	496	585	(15.2)	0	100

The segment achieved a profit before tax of EUR 70.7 million in the first half 2017, up 58.5% compared to the first half 2016, with a pre-tax return on equity (@12% CET1) of 43.2% and a cost-income ratio of 19.0%. The underlying performance reflects the purchase of a high-quality performing residential mortgage portfolio in Western Europe in December 2016 as well as a positive effect in the risk costs. Quarter-over-quarter comparability is therefore limited.

DACH CORPORATES & PUBLIC SECTOR

Strategy

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

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

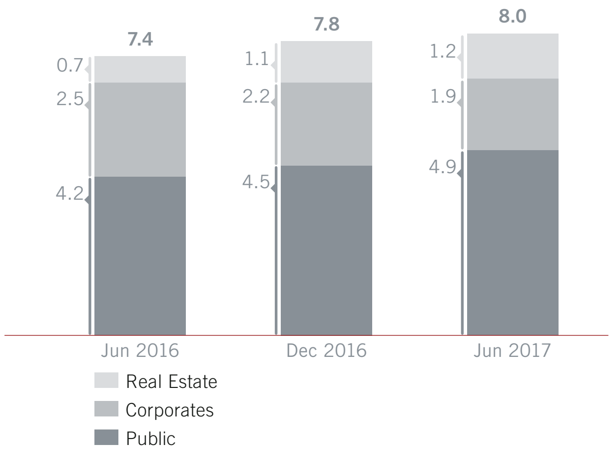
Our focus in Austria continues to be on maintaining and acquiring sustainable relationships while staying disciplined on pricing despite the competitive landscape. We recently entered into an originate-to-sell partnership with an insurance company and successfully transferred the first loans in June 2017.

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

First Half 2017 Business Review

Despite the challenging market environment, we managed to originate a new lending volume of EUR 381 million in the first half 2017 in addition to normal renewals, which is in a similar range as in the first half 2016. Our business solution teams continued to elevate our strong client relationships across financing products as well as payments and cash management services, while aiming to maintain and increase strong risk-adjusted pricing for the Bank. Overall market share slightly decreased due to early redemptions of selected loans.

Asset volume development (in EUR billion)



The segment's assets increased by EUR 0.2 billion to EUR 8.0 billion compared to year-end 2016. A decrease in the loan book from early redemptions was more than compensated by short-term lending to municipalities and social insurance companies.

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

Outlook

We expect the market to grow slightly but remain very competitive. We have the flexibility and speed necessary for strategic transactions requiring complete debt solutions for clients. The acquired IMMO-BANK portfolio provides a stronger customer base for commercial real estate financing.

Financial Results

Income metrics (in EUR million)	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Net interest income	11.2	20.4	(45.1)	31.9	40.3	(20.8)
Net fee and commission income	9.8	10.3	(4.9)	19.8	20.1	(1.5)
Core revenues	**21.0**	**30.7**	**(31.6)**	**51.7**	**60.4**	**(14.4)**
Gains and losses on financial instruments	1.2	0.4	>100	1.7	(0.1)	–
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**22.2**	**31.1**	**(28.6)**	**53.4**	**60.3**	**(11.4)**
Operating expenses	**(9.1)**	**(13.0)**	**(30.0)**	**(20.9)**	**(25.7)**	**(18.7)**
Total risk costs	3.8	1.7	>100	5.5	1.4	>100
Profit before tax	**16.9**	**19.8**	**(14.6)**	**38.0**	**36.0**	**5.6**

Key ratios	Q2 2017	Q2 2016	Change (pts)	Jan–Jun 2017	Jan–Jun 2016	Change (pts)
Pre-tax return on equity	12.1%	15.4%	(3.3)	14.0%	13.5%	0.5
Pre-tax return on equity (@12% CET1)	15.4%	17.8%	(2.4)	17.4%	15.1%	2.3
Net interest margin	0.56%	1.07%	(0.51)	0.81%	1.05%	(0.24)
Cost-income ratio	41.0%	41.8%	(0.8)	39.1%	42.6%	(3.5)
Risk costs / loans and receivables	(0.20)%	(0.09)%	(0.11)	(0.14)%	(0.04)%	(0.10)
NPL ratio	0.9%	1.3%	(0.4)	0.9%	1.3%	(0.4)

Business volumes (in EUR million)	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Assets	7,958	7,812	1.9	7,437	7.0
Risk-weighted assets	2,649	2,916	(9.2)	2,893	(8.4)
Customer deposits (incl. other refinancing)	6,115	5,284	15.7	3,759	62.7
Own issues	697	202	>100	200	>100

The segment contributed EUR 38.0 million to the Bank's profit before tax, up 5.6% compared to the first half 2016, and delivered a pre-tax return on equity (@12% CET1) of 17.4%. Core revenues decreased by 14.4% to EUR 51.7 million compared to the same period last year, resulting from the competitive market environment with continued pressure on margins. The overall quality of the portfolio further improved compared to the first half 2016, which is reflected in positive risk costs and an NPL ratio of 0.9% (down 40 basis points). This is a reflection of the prior years' de-risking activities and the overall high asset quality.

INTERNATIONAL BUSINESS

Strategy

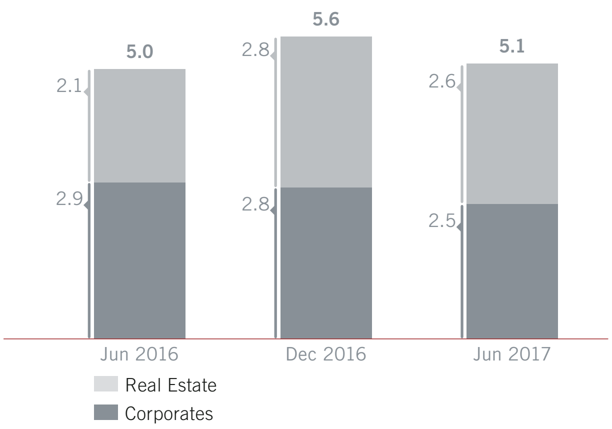
The segment International Business includes our international corporate, real estate and portfolio lending outside of the DACH region, with a focus on developed countries within Western Europe as well as the United States.

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

First Half 2017 Business Review

We continued to focus on our loan origination opportunities primarily in select developed Western countries. The International Business segment generated new business of EUR 758 million in the first half 2017. This results in a EUR 0.1 billion asset volume increase versus June last year.

Asset volume development (in EUR billion)



Our **international corporate lending business** continued to be faced with early redemptions arising from competitive market conditions in a low-interest rate environment. As a consequence, the portfolio experienced an asset volume decrease of 15% to EUR 2.5 billion as of June 2017 versus June 2016. Our new business volume primarily consists of high-quality loans with a general focus on defensive industries. Overall blended net leverage of the companies in our international corporate business was approximately 5.1x and for the tranches BAWAG P.S.K. lends to 4.0x.

Our **international real estate financing business** was, to a lesser extent, also affected by an increased volume of early redemptions and currency movements. This was more than compensated by a strong realization of new deals on a year-over-year basis. Therefore, the total asset volume increased by 26% to EUR 2.6 billion compared to June 2016. Transaction diversification continued across our commercial real estate lending business on a geographic, asset and industry basis. These transactions focused primarily on traditional real estate financings with attractive LTVs, strong cash flow, shorter weighted expected maturities and solid covenant characteristics. Overall portfolio performance and credit trends remained solid with some shortening of duration as loan amortizations increased ahead of original projections. We are also active in portfolio financing with low loan-to-value (LTV) and low loan-to-cost (LTC) positions against a more diversified portfolio of cash generating real estate assets. The portfolio has strong collateral coverage characteristics (average LTV <60%), provides strong cash flows and is structured to perform well in stressed market conditions, with shorter average durations.

Outlook

We see market conditions with a similar performance to the previous year and therefore expect a stable volume by the end of 2017 compared to June 2017.

Financial Results

Income metrics (in EUR million)	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Net interest income	32.0	34.5	(7.2)	65.4	67.8	(3.5)
Net fee and commission income	0.0	0.0	–	0.0	0.0	–
Core revenues	**32.0**	**34.5**	**(7.2)**	**65.4**	**67.8**	**(3.5)**
Gains and losses on financial instruments	(0.8)	(0.7)	(14.3)	(0.5)	(1.7)	70.6
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**31.2**	**33.8**	**(7.7)**	**64.9**	**66.1**	**(1.8)**
Operating expenses	**(6.5)**	**(6.4)**	**1.6**	**(15.0)**	**(13.3)**	**12.8**
Total risk costs	(12.5)	3.0	–	(15.5)	3.0	–
Profit before tax	**12.2**	**30.4**	**(59.9)**	**34.4**	**55.8**	**(38.4)**

Key ratios	Q2 2017	Q2 2016	Change (pts)	Jan–Jun 2017	Jan–Jun 2016	Change (pts)
Pre-tax return on equity	8.4%	22.3%	(13.9)	11.9%	19.5%	(7.6)
Pre-tax return on equity (@12% CET1)	10.6%	25.8%	(15.2)	14.9%	21.8%	(6.9)
Net interest margin	2.45%	2.66%	(0.21)	2.45%	2.52%	(0.07)
Cost-income ratio	20.8%	18.9%	1.9	23.1%	20.1%	3.0
Risk costs / loans and receivables	1.00%	(0.24)%	1.24	0.60%	(0.12)%	0.72
NPL ratio	0.9%	0.0%	0.9	0.9%	0.0%	0.9

Business volumes (in EUR million)	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Assets	5,130	5,634	(8.9)	5,040	1.8
Risk-weighted assets	4,099	4,169	(1.7)	3,890	5.4

The segment contributed EUR 34.4 million to the Bank's profit before tax in the first half 2017, down 38.4% compared to the same period last year due to higher operating expenses and risk costs, while still delivering a pre-tax return on equity (@12% CET1) of 14.9%. Despite higher-than-anticipated early redemptions and general pressure on margins, core revenues remained largely stable. The higher risk costs compared to the previous year result from precautionary provisions booked on exposures in the oil & gas sector. Similar to the DACH corporate lending business, the international business is characterized by high-quality assets and a low NPL ratio of 0.9%.

TREASURY SERVICES & MARKETS

Strategy

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

Treasury Services & Markets manages 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 and high-quality CLOs in order to maintain solid diversification.

First Half 2017 Business Review

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

As of 30 June 2017, Treasury Services & Markets managed an investment portfolio of EUR 6.0 billion and a liquidity reserve of EUR 1.8 billion. The investment portfolio's average maturity was five years, comprised 97% of investment grade rated securities, of which 86% 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 June 2017, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. This overall composition reflects the Bank's strategy to maintain high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Outlook

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

Financial Results

Income metrics (in EUR million)	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Net interest income	12.3	13.9	(11.5)	24.9	28.2	(11.7)
Net fee and commission income	0.0	0.0	–	0.0	0.0	–
Core revenues	**12.3**	**13.9**	**(11.5)**	**24.9**	**28.2**	**(11.7)**
Gains and losses on financial instruments	4.8	1.6	>100	9.8	0.7	>100
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**17.1**	**15.5**	**10.3**	**34.7**	**28.9**	**20.1**
Operating expenses	**(4.0)**	**(3.8)**	**5.3**	**(8.0)**	**(8.0)**	**–**
Total risk costs	0.0	0.0	–	0.0	0.0	–
Profit before tax	**13.1**	**11.7**	**12.0**	**26.7**	**20.9**	**27.8**

Key ratios	Q2 2017	Q2 2016	Change (pts)	Jan–Jun 2017	Jan–Jun 2016	Change (pts)
Pre-tax return on equity	12.7%	13.5%	(0.8)	13.4%	11.9%	1.5
Pre-tax return on equity (@12% CET1)	16.1%	15.7%	0.4	16.7%	13.3%	3.4
Net interest margin	0.80%	0.98%	(0.18)	0.84%	0.98%	(0.14)
Cost-income ratio	23.4%	24.5%	(1.1)	23.1%	27.7%	(4.6)

Business volumes (in EUR million)	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Assets and liquidity reserve	7,799	6,691	16.6	6,302	23.8
Risk-weighted assets	2,100	2,031	3.4	1,842	14.0
Own issues and other liabilities	2,404	2,847	(15.6)	2,860	(15.9)

The segment contributed EUR 26.7 million to the Bank's profit before tax in the first half 2017, up 27.8% compared to the same period in 2016, and delivered a pre-tax return on equity (@12% CET1) of 16.7%. Operating income was up 20.1% to EUR 34.7 million, supported by higher gains on financial instruments.

CORPORATE CENTER

First Half 2017 Review

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

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

The one-time positive tax effect in the first half 2016 did not repeat in the first half 2017, thus resulting in a significant difference in the net profit line. In addition, profit before tax was impacted by higher operating expenses (including restructuring expenses of EUR 11.4 million) as well as lower income on gains and losses on financial instruments. Furthermore, risk costs increased by EUR 5.1 million mainly due to reserves for potential operational losses as well as future settlements of legal disputes.

Other assets as well as other liabilities decreased due to significantly lower market values from derivatives, while risk-weighted assets slightly increased during the reporting period.

Financial Results

Income metrics (in EUR million)	Q2 2017	Q2 2016	Change (%)	Jan–Jun 2017	Jan–Jun 2016	Change (%)
Net interest income	1.1	6.1	(82.0)	(2.6)	10.4	–
Net fee and commission income	(0.9)	0.4	–	(1.4)	3.7	–
Core revenues	**0.2**	**6.5**	**(96.9)**	**(4.0)**	**14.1**	**–**
Gains and losses on financial instruments	(5.9)	8.0	–	5.5	22.9	(76.0)
Other operating income and expenses	1.8	2.0	(10.0)	1.8	2.1	(14.3)
Operating income	**(3.9)**	**16.5**	**–**	**3.3**	**39.1**	**(91.6)**
Operating expenses	**(18.6)**	**(13.5)**	**37.8**	**(23.5)**	**(16.5)**	**42.4**
Regulatory charges	(0.7)	(7.6)	(90.8)	(11.4)	(19.1)	(40.3)
Total risk costs	(4.9)	(0.9)	>100	(5.9)	(0.8)	>100
Share of the profit or loss of associates accounted for using the equity method	0.7	3.9	(82.1)	1.8	4.3	(58.1)
Profit before tax	**(27.4)**	**(1.6)**	**>(100)**	**(35.7)**	**7.0**	**–**
Income taxes	(20.6)	(21.4)	3.7	(47.1)	39.3	–
Non-controlling interests	0.0	(0.1)	100	0.0	(0.2)	100
Net profit	**(48.0)**	**(23.1)**	**>(100)**	**(82.8)**	**46.1**	**–**

Volumes (in EUR million)	Jun 2017	Dec 2016	Change (%)	Jun 2016	Change (%)
Other assets	3,095	3,489	(11.3)	3,447	(10.2)
Risk-weighted assets	1,320	1,246	5.9	1,404	(6.0)
Equity	3,348	3,134	6.8	3,224	3.8
Other liabilities	2,039	2,748	(25.8)	2,854	(28.6)

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

BAWAG P.S.K. delivered strong results in the first half 2017. We anticipate that our strong performance will continue throughout the remainder of the year. The outlook on segment level is provided in the business segment sections of the interim group management report.

Consolidated Interim Financial Statements

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	Jan–Jun 2017	Jan–Jun 2016	Q2 2017	Q2 2016
Interest income*)		548.9	528.6	266.9	262.1
Interest expense		(160.3)	(154.3)	(75.0)	(73.0)
Dividend income		6.8	2.0	6.8	1.9
Net interest income	**[1]**	**395.4**	**376.3**	**198.7**	**191.0**
Fee and commission income		142.8	140.8	71.0	67.2
Fee and commission expenses		(36.7)	(37.8)	(14.7)	(15.1)
Net fee and commission income	**[2]**	**106.1**	**103.0**	**56.3**	**52.1**
Gains and losses on financial assets and liabilities*)	[3]	17.3	22.6	(0.8)	9.1
Other operating income and expenses		(24.6)	(29.8)	(0.3)	(14.5)
Operating expenses	[4]	(218.7)	(216.1)	(111.0)	(111.7)
Provisions and impairment losses	[5]	(26.7)	(15.9)	(15.6)	(7.2)
Share of the profit or loss of associates accounted for using the equity method		1.8	4.3	0.7	3.9
Profit before tax		**250.6**	**244.4**	**128.0**	**122.7**
Income taxes		(47.1)	39.3	(20.6)	(21.4)
Profit after tax		**203.5**	**283.7**	**107.4**	**101.3**
Thereof attributable to non-controlling interests		0.0	0.2	0.0	0.1
Thereof attributable to owners of the parent		**203.5**	**283.5**	**107.4**	**101.2**

*) Adjusted for 2016. See Note 3.

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund) in the amount of EUR 27.1 million (Jan–Jun 2016: EUR 33.1 million). Expenses for the deposit guarantee scheme and for the single resolution fund comprise the total expected charges for 2017. The bank levy included in this item amounts to EUR 2.3 million for the first half 2017, compared to EUR 10.9 million according to the old bank levy regime for the first half 2016.

The item Operating expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of EUR 1.0 million (Jan–Jun 2016: EUR 0.9 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

STATEMENT OF COMPREHENSIVE INCOME

in EUR million	[Notes]	Jan–Jun 2017	Jan–Jun 2016	Q2 2017	Q2 2016
Profit after tax		**203.5**	**283.7**	**107.4**	**101.3**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/loss on defined benefit plans	[12]	3.9	(15.6)	3.9	(10.1)
Income tax on items that will not be reclassified		(1.0)	3.9	(1.0)	2.5
Total items that will not be reclassified to profit or loss		**2.9**	**(11.7)**	**2.9**	**(7.6)**
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge reserve		(6.0)	10.4	6.5	3.3
thereof transferred to profit (-) or loss (+)		(2.6)	(0.8)	(1.6)	(0.5)
Available-for-sale reserve		16.3	(9.8)	8.2	(3.7)
thereof transferred to profit (-) or loss (+)		(11.6)	(14.1)	(12.6)	(2.7)
Share of other comprehensive income of associates accounted for using the equity method		–	(2.9)	–	(2.9)
Income tax relating to items that may be reclassified		(2.6)	(1.8)	(3.7)	0.1
Total items that may be reclassified subsequently to profit or loss		**7.7**	**(4.1)**	**11.0**	**(3.2)**
Other comprehensive income		**10,6**	**-15,8**	**13,9**	**-10,8**
Total comprehensive income, net of tax		**214.1**	**267.9**	**121.3**	**90.5**
Thereof attributable to non-controlling interests		0.1	0.2	0.1	0.1
Thereof attributable to owners of the parent		**214.0**	**267.7**	**121.2**	**90.4**

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	Jun 2017	Dec 2016
Cash reserves		887	1,020
Financial assets designated at fair value through profit or loss		191	202
Available-for-sale financial assets	[6]	3,043	3,209
Held-to-maturity investments		2,319	2,353
Financial assets held for trading	[7]	510	652
Loans and receivables	[8]	31,445	30,821
Customers		28,003	28,494
Credit institutions		2,117	1,635
Securities		1,325	692
Hedging derivatives		590	677
Property, plant and equipment		49	53
Investment properties		4	3
Goodwill		58	58
Brand name and customer relationships		171	174
Software and other intangible assets		141	128
Tax assets for current taxes		6	10
Tax assets for deferred taxes		163	203
Associates recognized at equity		42	45
Other assets		97	135
Total assets		**39,716**	**39,743**

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

Total liabilities and equity

in EUR million	[Notes]	Jun 2017	Dec 2016
Total liabilities		**36,367**	**36,607**
Financial liabilities designated at fair value through profit or loss	[9]	847	1,115
Financial liabilities held for trading	[10]	405	617
Financial liabilities at amortized cost	[11]	33,816	32,962
Customers		25,359	25,998
Issued bonds, subordinated and supplementary capital		5,120	4,900
Credit institutions		3,337	2,064
Financial liabilities associated with transferred assets		–	300
Valuation adjustment on interest rate risk hedged portfolios		135	223
Hedging derivatives		140	260
Provisions	[12]	366	404
Tax liabilities for current taxes		21	19
Tax liabilities for deferred taxes		33	27
Other obligations		604	680
Total equity		**3,349**	**3,136**
Equity attributable to the owners of the parent		3,348	3,134
Non-controlling interests		1	2
Total liabilities and equity		**39,716**	**39,743**

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2016	**100**	**1,094**	**1,793**	**41**	**–**	**(72)**	**2,956**	**1**	**2,957**
Total comprehensive income	–	–	284	(12)	8	(12)	268	1	269
Balance as of 30.06.2016	**100**	**1,094**	**2,077**	**29**	**8**	**(84)**	**3,224**	**2**	**3,226**
Balance as of 01.01.2017	**100**	**1,094**	**1,967**	**39**	**6**	**(73)**	**3,134**	**1**	**3,135**
Total comprehensive income	–	–	203	12	(4)	3	214		214
Balance as of 30.06.2017	**100**	**1,094**	**2,170**	**51**	**2**	**(70)**	**3,348**	**1**	**3,349**

CONDENSED CASH FLOW STATEMENT

in EUR million	**Jan–Jun 2017**	Jan–Jun 2016
Cash and cash equivalents at end of previous period	**1,020**	**809**
Profit (after tax, before non-controlling interests)	203	284
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(404)	(349)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(536)	(409)
Interest receipts	578	547
Interest paid	(112)	(109)
Dividend receipts	7	2
Net cash from operating activities	**(264)**	**(34)**
Cash receipt from sales of subsidiaries	–	91
Cash receipts from sales of		
Financial investments	968	794
Tangible and intangible non-current assets	–	1
Cash paid for		
Financial investments	(798)	(1,101)
Tangible and intangible non-current assets	(25)	(20)
Net cash used in investing activities	**145**	**(235)**
Dividends paid	–	–
Others	(14)	(7)
Net cash from financing activities	**(14)**	**(7)**
Cash and cash equivalents at end of period	**887**	**533**

NOTES

The condensed consolidated interim financial statements of BAWAG Holding Group (referred to as BAWAG P.S.K. throughout the document unless stated otherwise) as of 30 June 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC) to the extent adopted by the EU.

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

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

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

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

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

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in the first half 2017, fair value losses in the amount of minus EUR 6.0 million would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG P.S.K. had not applied cash flow hedge accounting.

As of 30 June 2017, no new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2017.

Already in July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value and fair value through other comprehensive income.

IFRS 9 will become mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

According to IFRS 7, in 2018 the notes of BAWAG P.S.K. Group will contain transitional tables reconciling financial assets and impairment allowances from IAS 39 to IFRS 9. It is not planned to disclose the IFRS 9 figures for the prior year.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of Financial Assets and Financial Liabilities

Financial Assets

IFRS 9 establishes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). A financial asset is measured at fair value through other comprehensive income if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). Financial assets that do not meet these criteria are measured at fair value through profit or loss. Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Business Model Assessment

The Group made an assessment of business models for all segments and is currently setting up documentation including:

- policies and objectives for the portfolio
- how the performance of the portfolio is evaluated and reported to the Group's management
- the risks that affect the performance of the business model and how those risks are managed

Assessment Whether Contractual Cash Flows Are Solely Payments of Principal and Interest

The Group analyzed its existing loan portfolio and set up a checklist for SPPI criteria. The Group is currently implementing or adjusting relevant software tools for IFRS 9-compliant reporting. Internal processes are being defined and in-house training of relevant divisions is being performed.

Financial Liabilities

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39. However, under IFRS 9 fair value changes of financial liabilities in the fair value option are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Modifications

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

BAWAG P.S.K. has evaluated different software solutions and has decided to use the existing systems to implement the automated treatment of modifications.

Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: Instead of the quantitative criterion (bandwidth of 80% to 125%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

While the macro hedge accounting project is ongoing, adopters of IFRS 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in IAS 39.

The Group currently expects no major impacts on the consolidated financial statements resulting from IFRS 9 hedge accounting and will continue to apply the macro fair value hedge accounting model for interest rate risk according to IAS 39. IFRS 9 macro hedge accounting provisions will be evaluated after finalization of the respective requirements by the IASB.

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries). The applied methodology is based on the standard-setting document “IFRS 9 Financial Instruments (July 2014)”[1]. Since this document is formulated in a very general manner (with respect to the model requirements), the following documents, which are more detailed and contain further principles for modelling IFRS 9-compliant lifetime expected loss, are also being taken into account as input for the methodology:

- Global Public Policy Committee (June 2016): “The implementation of the IFRS 9 impairment requirements by banks”
- Basel Committee on Banking Supervision (December 2015): “Guidance on credit risk and accounting for ECL”
- European Banking Authority (July 2016): “Draft guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses”

The main drivers in the ECL calculation are the lifetime probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default for different products.

The lifetime PD is assumed to consist of a through-the-cycle component and point-in-time component. The through-the-cycle component represents idiosyncratic characteristics of the borrower, whereas the point-in-time stands for business-cycle effects. For the through-the-cycle component, our model approach considers – amongst others – the homogenous and non-homogenous continuous Markov approach. For the point-in-time component, the shift factor and a firm-value based approach (“Peridery approach”) PD are used. For each relevant business segment, a separate model was developed to forecast the lifetime PDs by considering forecasts of macroeconomic factors. An initial validation (“back testing”) was performed for the models of the main business segments in order to quantify the main impact of lifetime expected loss. For 2017, a complete validation process is planned in parallel to the current regulation.

The decision as to whether a financial instrument is assigned to stage 1 (“unchanged credit quality”) or stage 2 (“significantly deteriorated credit quality”) is based on quantitative transfer criteria as well as on qualitative factors. As quantitative criteria, a relative (ratio of relevant lifetime PDs) and an absolute (difference of relevant lifetime PDs) criterion are considered. For investment grade ratings, the absolute transfer criterion is applied in substitution to the low risk exemption that can be chosen under the IFRS 9 Standard. This allows for more flexibility as stage transfers are also possible for transactions that have an assigned investment grade rating. As soon as the relevant ratios and differences of lifetime PDs exceed defined thresholds, the financial instrument is assigned to stage 2, in which lifetime expected loss numbers are considered as expected credit losses instead of 12-month expected loss numbers.

The qualitative factors include the following tests: 1) whether the financial instrument is 30 days delayed or not, 2) whether the financial instrument is on a watch list or not, 3) whether the financial instrument has a warning signal or not. As soon as one of the qualitative factors is relevant, the financial instrument is assigned to stage 2.

Status of the Implementation Project

The implementation project of BAWAG P.S.K. is at an advanced stage, and some of the IFRS 9 relevant parameters and models are currently being finalized. Significant internal and external resources were bundled to ensure a timely implementation of the IFRS 9 project. The governance structure is ensured by the involvement of the CFO and the CRO in the steering committee and to ensure the timely implementation of the project. At the Supervisory Board level, IFRS 9 status updates are provided to the Risk and Credit Committee.

In June 2017, BAWAG P.S.K. started with a parallel calculation. The reason for the parallel calculation is to test the effects and process workflows in a live run and integrate them into the overall management of BAWAG P.S.K.

When IFRS 9 is applied for the first time, BAWAG P.S.K. expects on the basis of the portfolio as of 30 June 2017 and the current project progress the following impacts on its financial accounts: Currently, we expect a slightly negative effect on IFRS equity due to impacts arising from both Classification & Measurement as well as Impairment. Concerning our Common Equity Tier 1 ratio we expect a negative impact of around <40 basis points.

1) In the following this document is called IFRS 9 Standard.

The disclosed effects are based on the Group's current assessment and may change when IFRS 9 is applied for the first time due to changes in the composition of the portfolio or different economic conditions.

IFRS 15 is mandatory for annual reporting periods beginning on or after 1 January 2018 and will have no material impact on the consolidated financial statements of BAWAG P.S.K. from a current perspective.

IFRS 16 is effective from 1 January 2019, replaces the previous leases Standard, IAS 17 Leases, and related Interpretations and will be applicable to the consolidated financial statements of BAWAG P.S.K. BAWAG P.S.K. is currently evaluating the effects of IFRS 16 on the consolidated financial statements. One major effect for BAWAG P.S.K. as a lessee in an operating lease contract will be the recognition of a "right-of-use" asset and the related lease liability at commencement of the lease. Furthermore, rental expenses, which so far have been recognized on a straight-line basis, will be replaced by interest expenses for the lease liability and depreciation of the "right-of-use" asset.

Accounting for the acquisition of start:bausparkasse AG and IMMO-BANK AG according to IFRS 3 is still based on preliminary results. BAWAG P.S.K. expects finalization within the measurement period according to IFRS 3.45. Currently, the Group does not expect any major impacts on its equity.

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

As of 30 June 2017, the Group consists of 37 (31 December 2016: 36) fully consolidated entities and 2 (31 December 2016: 2) entities that are accounted for using the equity method in Austria and abroad. In the second quarter 2017, BV Vermögensverwaltung GmbH was included in the scope of consolidation due to materiality.

The interim financial statements for the first half 2017 were reviewed by the external auditor.

The tables in this report may contain rounding differences.

CLAIM AGAINST THE CITY OF LINZ

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

MAJOR EVENTS AFTER THE REPORTING DATE

Signed agreement to acquire Südwestbank AG

On 14 July 2017, BAWAG P.S.K. signed an agreement to acquire Südwestbank AG, a regional private bank with over EUR 7 billion assets and approximately 100,000 retail and business customers headquartered in Stuttgart, Germany. The transaction is expected to close in 2017 and is subject to customary closing conditions and regulatory approvals.

Sale of media.at Group

On 18 July 2017 the sale of media.at GmbH (and its subsidiaries) was completed with closing. P.S.K. Beteiligungsverwaltung GmbH sold, along with all other shareholders, its entire 26.3% stake to a third party.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 I Net interest income

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Interest income*)	548.9	528.6
Interest expense	(160.3)	(154.3)
Dividend income	6.8	2.0
Net interest income	**395.4**	**376.3**

*) Adjusted for 2016.

2 I Net fee and commission income

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Fee and commission income	**142.8**	**140.8**
Payment transfers	86.2	84.1
Lending	15.2	15.2
Securities and custody business	21.4	18.7
Other	20.0	22.8
Fee and commission expenses	**(36.7)**	**(37.8)**
Payment transfers	(18.4)	(19.1)
Other	(18.3)	(18.7)
Net fee and commission income	**106.1**	**103.0**

3 I Gains and losses on financial assets and liabilities

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Realized gains on sales of subsidiaries and securities	17.8	22.9
Fair value gains	(4.6)	4.1
Gains from fair value hedge accounting	4.0	0.6
Others*)	0.1	(5.0)
Gains and losses on financial assets and liabilities	**17.3**	**22.6**

*) Adjusted for 2016.

Change in presentation of amortization of day one profits

IFRS does not provide guidance on the presentation of amortization of day one profits. Accordingly, it can be shown either in interest income or gains and losses on financial assets and liabilities. Until the end of the third quarter 2016, the disclosure was made in gains and losses on financial assets and liabilities. As the day one profit will be amortized on a systematic basis, BAWAG P.S.K. considers this regular amortization as similar to interest income. Therefore, since the fourth quarter 2016 the amortization of day one profits is shown in interest income to provide greater transparency. Comparative amounts for the previous period were adjusted accordingly. The following table shows the effects in the first half 2017 and the first half 2016 on each item that was reclassified:

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Decrease in other gains and losses on financial assets and liabilities	(3.9)	(5.9)
Increase in interest income	+3.9	+5.9

4 | Operating expenses

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Staff costs	(123.3)	(111.3)
Other administrative expenses	(68.0)	(73.3)
Depreciation and amortization on tangible and intangible assets	(19.1)	(18.9)
Restructuring and other one-off expenses	(8.3)	(12.6)
Operating expenses	**(218.7)**	**(216.1)**

The line item Restructuring and other one-off expenses mainly includes expenses for restructuring costs.

5 | Provisions and impairment losses

in EUR million	Jan–Jun 2017	Jan–Jun 2016
Loan-loss provisions and changes in provisions for off-balance credit risk	(21.4)	(12.7)
Provisions and expenses for operational risk	(4.9)	(2.4)
Impairment losses on financial assets	0.0	(0.8)
Impairment losses on non-financial assets	(0.4)	0.0
Provisions and impairment losses	**(26.7)**	**(15.9)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 I Available-for-sale financial assets

in EUR million	Jun 2017	Dec 2016
Bonds	**2,969**	**3,129**
Bonds of other issuers	2,779	2,619
Public sector debt instruments	190	510
Subsidiaries and other equity investments	**74**	**80**
Available-for-sale financial assets	**3,043**	**3,209**

7 I Financial assets held for trading

in EUR million	Jun 2017	Dec 2016
Derivatives in trading book	169	230
Derivatives in banking book	341	422
Financial assets held for trading	**510**	**652**

8 I Loans and receivables

Jun 2017 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Receivables from customers	**27,607**	**621**	**(160)**	**(65)**	**28,003**
thereof IBNR portfolio provision[1)]	–	–	–	(37)	(37)
Securities	**1,325**	**–**	**–**	**–**	**1,325**
Receivables from credit institutions	**2,117**	**–**	**–**	**–**	**2,117**
Total	**31,049**	**621**	**(160)**	**(65)**	**31,445**

1) Allowance for incurred but not reported losses.

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

1) Allowance for incurred but not reported losses.

The increase in the line item receivables from credit institutions reflects the Bank's participation in the TLTRO II in the amount of EUR 2.0 billion since the excess funding from the TLTRO II is temporarily invested at the Austrian National Bank. In addition, the line item receivables from customers is also affected by the TLTRO II. For further details, please refer to the explanations on the statement of financial position.

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

Jun 2017 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	11,446	183	(99)	(25)	11,505
easygroup	4,063	38	(16)	(3)	4,082
DACH Corporates & Public Sector	7,739	34	(23)	–	7,750
International Business	4,888	50	(17)	–	4,921
Treasury Services & Markets	2,726	–	–	–	2,726
Corporate Center	187	316	(5)	(37)	461
Total	**31,049**	**621**	**(160)**	**(65)**	**31,445**

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

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

Receivables from customers – Breakdown by credit type

in EUR million	**Jun 2017**	Dec 2016
Loans	24,318	25,300
Current accounts	1,279	1,325
Finance leases	1,178	1,202
Cash advances	1,228	667
Receivables from customers	**28,003**	**28,494**

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

in EUR million	Jun 2017	Dec 2016
Issued debt securities and other securitized liabilities	737	1,006
Subordinated and supplementary capital	110	109
Financial liabilities designated at fair value through profit or loss	**847**	**1,115**

10 | Financial liabilities held for trading

in EUR million	Jun 2017	Dec 2016
Derivatives trading book	78	143
Derivatives banking book	327	474
Financial liabilities held for trading	**405**	**617**

11 | Financial liabilities measured at amortized cost

in EUR million	Jun 2017	Dec 2016
Deposits from banks	**3,337**	**2,064**
Deposits from customers	**25,359**	**25,998**
Savings deposits – fixed interest rates	1,124	1,928
Savings deposits – variable interest rates	6,809	6,372
Deposit accounts	5,721	6,074
Current accounts – Retail	7,911	7,341
Current accounts – Corporates	2,773	2,505
Other deposits[1)]	1,021	1,778
Issued bonds, subordinated and supplementary capital	**5,120**	**4,900**
Issued debt securities and other securitized liabilities	4,657	4,436
Subordinated and supplementary capital	463	464
Financial liabilities measured at amortized cost	**33,816**	**32,962**

1) Primarily term deposits.

As of 30 June 2017, the line item deposits from banks includes a tranche in the TLTRO II in the amount of EUR 2.0 billion. For further details, please refer to the explanations on the statement of financial position.

12 | Provisions

in EUR million	Jun 2017	Dec 2016
Provisions for social capital	353	386
Anticipated losses from pending business	7	8
Other items including legal risks	6	10
Provisions	**366**	**404**

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 1.75% to 1.80% resulted in a net impact of EUR 2.3 million in other comprehensive income and EUR 0.1 million in profit.

13 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Jun 2017 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	At-equity companies	Other companies
Loans and receivables – customers	118	631	48	–	91
Securities	–	93	–	21	–
Other assets (incl. derivatives)	5	0	5	–	–
Financial liabilities – customers	–	0	11	118	4
Other liabilities (incl. derivatives)	–	–	–	1	–
Guarantees provided	–	–	–	–	1
Interest income	0.4	14.9	0.5	0.1	1.0
Interest expenses	–	4.8	0.0	0.7	0.0
Net fee and commission income	–	0.0	0.0	7.8	0.2

As of 30 June 2017, there is a loan from BAWAG P.S.K. to Promontoria Sacher Holding N.V. in the amount of EUR 117.5 million and maturing on 30 June 2018. The interest rate is determined at standard market terms.

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

Jun 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	–	766	51	0	147
Securities	–	–	–	20	–
Other assets (incl. derivatives)	30	1	6	–	–
Financial liabilities – customers	–	0	14	96	10
Other liabilities (incl. derivatives)	–	0	–	2	–
Guarantees provided	–	–	–	–	1
Interest income	–	16.9	0.9	0.1	1.3
Interest expenses	–	0.0	0.0	0.8	0.0
Net fee and commission income	–	–	0.0	10.8	0.3

Information regarding natural persons

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

	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
in EUR million	Jun 2017	Jun 2017	Dec 2016	Dec 2016
Current account deposits	10	2	10	3
Savings deposits	1	3	0	3
Loans	0	4	1	3

14 | Segment reporting

This information is based on the Group structure as of 30 June 2017.

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

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

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

- **BAWAG P.S.K. Retail –** includes savings, payment, card and lending activities, investment and insurance services for our domestic private customers, small business lending and our social housing activities, building society savings and loans, estate leasing as well as own issues covered with retail assets and Wohnbaubank bonds.
- **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 including own issues covered with an international mortgage portfolio.
- **DACH Corporates & Public Sector –** includes our corporate and public lending business and other fee-driven financial services for mainly Austrian customers; as we also support our clients in their cross-border activities, selective client relationships in neighboring countries and own issues covered with corporate or public assets 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), tangible and intangible assets as well as 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–Jun 2017 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	197.5	78.3	31.9	65.4	24.9	(2.6)	395.4
Net fee and commission income	82.3	5.4	19.8	0.0	0.0	(1.4)	106.1
Core revenues	**279.8**	**83.7**	**51.7**	**65.4**	**24.9**	**(4.0)**	**501.5**
Gains and losses on financial instruments	0.8	0.0	1.7	(0.5)	9.8	5.5	17.3
Other operating income and expenses	1.1	(0.5)	0.0	0.0	0.0	1.8	2.4
Operating income	**281.7**	**83.2**	**53.4**	**64.9**	**34.7**	**3.3**	**521.2**
Operating expenses	**(134.4)**	**(15.8)**	**(20.9)**	**(15.0)**	**(8.0)**	**(23.5)**	**(217.6)**
Regulatory charges	(14.3)	(2.4)	–	–	–	(11.4)	(28.1)
Total risk costs	(16.5)	5.7	5.5	(15.5)	0.0	(5.9)	(26.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	1.8	1.8
Profit before tax	**116.5**	**70.7**	**38.0**	**34.4**	**26.7**	**(35.7)**	**250.6**
Income taxes	–	–	–	–	–	(47.1)	(47.1)
Profit after tax	**116.5**	**70.7**	**38.0**	**34.4**	**26.7**	**(82.8)**	**203.5**
Non-controlling interests	–	–	–	–	–	0.0	0.0
Net profit	**116.5**	**70.7**	**38.0**	**34.4**	**26.7**	**(82.8)**	**203.5**
Business volumes							
Assets	11,632	4,102	7,958	5,130	7,799	3,095	39,716
Liabilities	20,856	4,257	6,811	1	2,404	5,387	39,716
Risk-weighted assets	4,471	2,278	2,649	4,099	2,100	1,320	16,917

Jan–Jun 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	169.4	60.2	40.3	67.8	28.2	10.4	376.3
Net fee and commission income	74.6	4.6	20.1	0.0	0.0	3.7	103.0
Core revenues	**244.0**	**64.8**	**60.4**	**67.8**	**28.2**	**14.1**	**479.3**
Gains and losses on financial instruments	0.8	0.0	(0.1)	(1.7)	0.7	22.9	22.6
Other operating income and expenses	1.0	0.1	0.0	0.0	0.0	2.1	3.2
Operating income	**245.8**	**64.9**	**60.3**	**66.1**	**28.9**	**39.1**	**505.1**
Operating expenses	**(136.0)**	**(15.7)**	**(25.7)**	**(13.3)**	**(8.0)**	**(16.5)**	**(215.2)**
Regulatory charges	(12.4)	(2.5)	–	–	–	(19.1)	(34.0)
Total risk costs	(17.3)	(2.1)	1.4	3.0	0.0	(0.8)	(15.8)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	4.3	4.3
Profit before tax	**80.1**	**44.6**	**36.0**	**55.8**	**20.9**	**7.0**	**244.4**
Income taxes	–	–	–	–	–	39.3	39.3
Profit after tax	**80.1**	**44.6**	**36.0**	**55.8**	**20.9**	**46.3**	**283.7**
Non-controlling interests	–	–	–	–	–	(0.2)	(0.2)
Net profit	**80.1**	**44.6**	**36.0**	**55.8**	**20.9**	**46.1**	**283.5**
Business volumes							
Assets	9,256	3,247	7,437	5,040	6,302	3,447	34,729
Liabilities	18,158	3,673	3,959	1	2,860	6,078	34,729
Risk-weighted assets	3,785	1,849	2,893	3,890	1,842	1,404	15,663

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-Jun 2017**	Jan-Jun 2016
Other operating income and expenses according to segment report	2.4	3.2
Regulatory charges	(27.1)	(33.1)
Other operating income and expenses according to consolidated profit or loss statement	**(24.6)**	**(29.8)**

in EUR million	**Jan-Jun 2017**	Jan-Jun 2016
Operating expenses according to segment report	217.6	(215.2)
Regulatory charges	(1.0)	(0.9)
Operating expenses according to consolidated profit or loss statement	**(218.7)**	**(216.1)**

15 | Capital management

Regulatory reporting is performed on the level of BAWAG Holding and Promontoria Sacher Holding N.V. Group as the EEA parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds of Promontoria Sacher Holding N.V. Group and BAWAG Holding Group applying transitional rules and its own funds requirement as per 30 June 2017 and 31 December 2016 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	Promontoria		BAWAG Holding	
in EUR million	**Jun 2017[3)]**	Dec 2016	**Jun 2017[3)]**	Dec 2016
Share capital and reserves (including funds for general banking risk)	3,122	3,121	3,159	3,158
Not yet distributed dividend for 2015[1)]	(25)	(25)	–	–
Deduction of intangible assets	(260)	(190)	(260)	(190)
Other comprehensive income	(35)	(30)	(35)	(30)
IRB risk provision shortfalls[2)]	(40)	(19)	(40)	(19)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(34)	(47)	(34)	(47)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(119)	(100)	(119)	(100)
Excess of deduction from AT1 items over AT1 capital	(70)	(133)	(70)	(133)
Common Equity Tier I	**2,539**	**2,577**	**2,601**	**2,639**
IRB risk provision shortfalls[2)]	(5)	(6)	(5)	(6)
Deduction of intangible assets	(65)	(127)	(65)	(127)
Excess of deduction from AT1 items over AT1 capital	70	133	70	133
Additional Tier I	**–**	**–**	**–**	**–**
Tier I	**2,539**	**2,577**	**2,601**	**2,639**
Supplementary and subordinated debt capital	478	484	478	484
Excess IRB risk provisions	–	24	0	24
Less significant investments, IRB risk provision shortfalls[2)]	(26)	(26)	(26)	(26)
Tier II	**452**	**482**	**452**	**482**
Own funds	**2,991**	**3,059**	**3,053**	**3,121**

1) Dividends for 2015: In the third quarter 2016, BAWAG Holding paid a dividend of EUR 309 million to Promontoria Sacher Holding N.V., the sole shareholder of BAWAG Holding GmbH. Promontoria Sacher Holding N.V. paid a dividend of EUR 265 million to its shareholders. Another EUR 25 million have not yet been paid but deducted from CET1 as a foreseeable dividend.
2) June 2017: According to CRR, LLPs as of 31 December 2016 including disposals until 30 June 2017.
3) Own funds as of 30 June 2017 differ from those as of 31 December 2016 inter alia because of different CRR transitional rules for 2017 and 2016 for the eligibility of capital and deductions from own funds.

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

	Promontoria		BAWAG Holding	
in EUR million	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Credit risk	15,203	15,423	15,269	15,426
Market risk	45	59	45	59
Operational risk	1,580	1,633	1,580	1,633
Capital requirements (risk-weighted assets)	**16,828**	**17,115**	**16,894**	**17,118**

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

	Promontoria		BAWAG Holding	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Common Equity Tier I capital ratio based on total risk	16.0%	14.8%	16.5%	15.1%
Total capital ratio based on total risk	18.9%	17.6%	19.3%	18.0%

Key figures according to CRR including its transitional rules

	Promontoria		BAWAG Holding	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	15.1%	n/a	15.4%	n/a
Total capital ratio based on total risk (excl. interim profit)	17.8%	n/a	18.1%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	16.2%	15.1%	16.7%	15.4%
Total capital ratio based on total risk (incl. interim profit)	19.1%	17.9%	19.5%	18.2%

16 | Fair value

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

in EUR million	Carrying amount Jun 2017	Fair value Jun 2017	Carrying amount Dec 2016	Fair value Dec 2016
Assets				
Cash reserves	887	887	1,020	1,020
Financial assets designated at fair value through profit or loss	191	191	202	202
Available-for-sale financial assets				
Recognized at fair value	2,970	2,970	3,129	3,129
Recognized at cost	73	n/a	80	n/a
Held-to-maturity investments	2,319	2,392	2,353	2,448
Financial assets held for trading	510	510	652	652
Loans and receivables	31,445	31,709	30,821	31,298
Hedging derivatives	590	590	677	677
Property, plant and equipment	49	n/a	53	n/a
Investment properties	4	5	3	5
Intangible non-current assets	370	n/a	360	n/a
Other assets	308	n/a	393	n/a
Total assets	**39,716**		**39,743**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	847	847	1,115	1,115
Financial liabilities held for trading	405	405	617	617
Financial liabilities at amortized cost	33,816	34,024	32,962	33,261
Financial liabilities associated with transferred assets	–	–	300	300
Valuation adjustment on interest rate risk hedged portfolios	135	135	223	223
Hedging derivatives	140	140	260	260
Provisions	366	n/a	404	n/a
Other obligations	658	n/a	726	n/a
Equity	3,348	n/a	3,134	n/a
Non-controlling interests	1	n/a	2	n/a
Total liabilities and equity	**39,716**		**39,743**	

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

The available-for-sale financial assets include EUR 73 million in equity 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 105 million.

Furthermore, own issues recognized in the line item Financial liabilities at amortized cost do not include unrealized losses in the amount of EUR 189 million.

Fair value hierarchy

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

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

- **Level 2:** The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.

- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid structured securitization instruments whose value is determined by unobservable assumptions (the outcome of litigation, investor decisions, trigger events, etc.) as well as own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve.

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

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

Jun 2017 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	2	188	1	–	191
Available-for-sale financial assets	2,878	91	1	73	3,043
Financial assets held for trading	0	510	–	–	510
Hedging derivatives	–	590	–	–	590
Total fair value assets	**2,880**	**1,379**	**2**	**73**	**4,334**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	437	410	–	847
Financial liabilities held for trading	–	405	–	–	405
Valuation adjustment on interest rate risk hedged portfolios	–	135	–	–	135
Hedging derivatives	–	140	–	–	140
Total fair value liabilities	**–**	**1,117**	**410**	**–**	**1,527**

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

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

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

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

Movements between Level 1 and Level 2

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

Movements in Level 3 financial instruments measured at fair value

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

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2017	**1**	**1**	**477**
Valuation gains (losses) in profit or loss			
for assets held at the end of the period	–	–	(7)
for assets no longer held at the end of the period	–	–	–
Valuation gains (losses) in other comprehensive income			
for assets held at the end of the period	–	–	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	–	–
Redemptions	–	–	(60)
Sales	–	–	–
Foreign exchange differences	–	–	–
Transfers into or out of other levels	–	–	–
Closing balance as of 30.06.2017	**1**	**1**	**410**

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

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

In the first half 2017, the financial liabilities reported under Level 3 in 2016 decreased by a total of EUR 67 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 and IMMO-BANK 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 for own issues of BAWAG P.S.K. Wohnbaubank is currently 100 basis points (31 December 2016: 100 basis points) for all maturities (mid). For issues of IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

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 and IMMO-BANK; BAWAG P.S.K. had Level 3 financial assets recognized at their fair value in the amount of EUR 2 million as of 30 June 2017. If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 30 June 2017 would have increased by EUR 1.6 million (31 December 2016: EUR 2.0 million). If the fair value of financial assets decreased by 30%, the accumulated valuation result as of 30 June 2017 would have decreased by EUR 0.6 million (31 December 2016: minus EUR 0.6 million).

RISK REPORT

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

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

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

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

- Strategic Risk
- Market & Liquidity Risk Controlling
- Enterprise Risk Management
- Credit Risk Management
- European Retail Risk Management
- Non-Financial Risk Management & Regulatory Compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 | Credit risk

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

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

In the retail and small business customer segment as well as in easygroup, 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.

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 half 2017

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

In the first half 2017, the BAWAG P.S.K. Retail segment experienced further growth across core products. Significant efforts were undertaken to further develop overall underwriting standards and processes through automated and continuously enhanced underwriting models and processes. 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 our performing residential mortgage portfolios in Western Europe. These portfolios consist of a UK & French performing mortgage portfolio (outstanding balance of GBP 1.4 billion and EUR 1.2 billion, respectively, as of June 30, 2017).

The risk policy of easygroup is defined in accordance with BAWAG P.S.K.'s guidelines and is characterized by a conservative, low-risk appetite with an emphasis on risk-adjusted returns. The leasing business focuses on leasing of motor vehicles and related business managed in the segment easygroup. The risk policy of the leasing companies is closely aligned to the guidelines of BAWAG P.S.K. The risk systems, which have been adapted to the special requirements of the leasing business, are part of the overall risk architecture of the Bank.

The segments DACH Corporates & Public Sector as well as the International Business were characterized by proactive risk management, disciplined lending in developed markets and maintaining a disciplined approach on risk-adjusted pricing. Consequently, exposures with unfavorable risk profiles (i.e. "watch loans") are actively managed and reduced within the Group's early warning process. This is exemplified in the Bank's exposure to the oil & gas sector, which – in light of decreasing commodity prices – has been under review since 2015 and has led to a majority of customers being put on the watchlist. As a result, the total credit volume in the oil & gas sector was reduced by 26%, from EUR 324 million in 2015 to EUR 239 million as of the first half 2017, which currently represents less than 2% of the total corporate book.

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

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

Credit risk and bonds by business segment

Jun 2017 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	11,504	4,083	7,576	4,780	1,848	463	30,254
Bonds	3	0	360	333	5,951	19	6,666
Off-balance business	1,199	644	725	281	265	877	3,991
Total	**12,707**	**4,727**	**8,661**	**5,394**	**8,064**	**1,359**	**40,911**
thereof collateralized[1)]	6,039	3,602	2,416	2,018	105	0	14,181
thereof NPL (incl. LLP, gross view)	266	138	80	50	0	255	789

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

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

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

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

Jun 2017 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	11,504	3	11,508	124	11,632
easygroup	4,083	0	4,083	19	4,102
DACH Corporates & Public Sector	7,750	185	7,935	23	7,958
International Business	4,921	192	5,114	17	5,130
Treasury Services & Markets	2,726	5,073	7,799	0	7,799
Corporate Center	460	22	482	2,613	3,095
Total	**31,445**	**5,476**	**36,920**	**2,795**	**39,716**

1) Shares and other variable-rate securities (Jun 2017: EUR 4.2 million, Dec 2016: EUR 4.4 million) are not included.

Dec 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	11,558	0	11,558	101	11,659
easygroup	4,436	0	4,436	22	4,458
DACH Corporates & Public Sector	7,580	210	7,790	22	7,812
International Business	5,392	242	5,634	0	5,634
Treasury Services & Markets	1,496	5,195	6,691	0	6,691
Corporate Center	359	32	392	3,098	3,489
Total	**30,821**	**5,680**	**36,501**	**3,242**	**39,743**

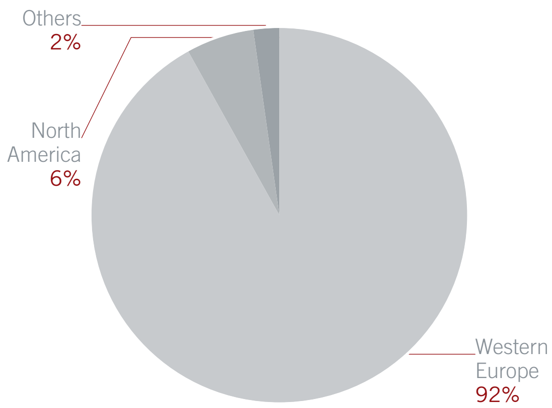
1) Shares and other variable-rate securities (Jun 2017: EUR 4.2 million, Dec 2016: EUR 4.4 million) are not included.

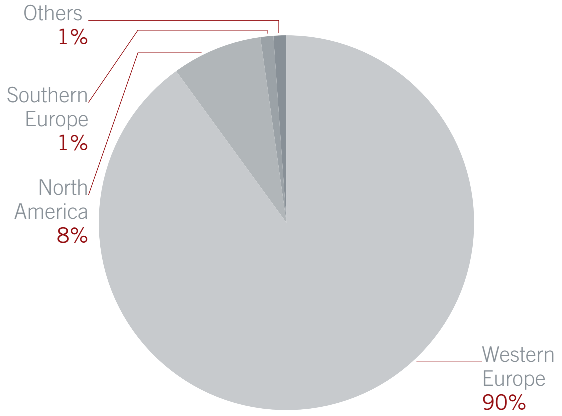
Geographical distribution of the loan and bond portfolio

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

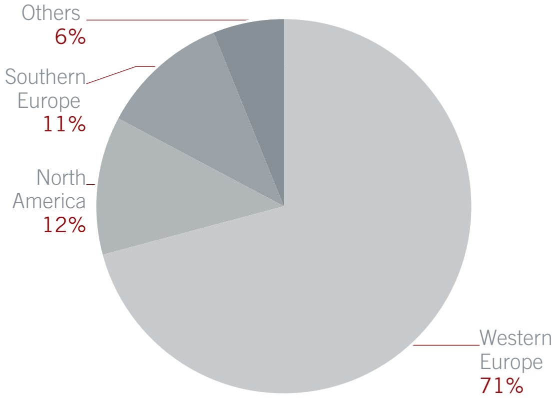
1) This includes Austria with 70% (Dec 2016: 67%), Great Britain with 10% (Dec 2016: 10%), the United States with 6% (Dec 2016: 8%), France with 5% (Dec 2016: 6%) and Germany with 3% (Dec 2016: 3%).
2) This includes Great Britain with 14% (Dec 2016: 14%), the United States with 12% (Dec 2016: 13%), France with 8% (Dec 2016: 8%), Austria with 7% (Dec 2016: 11%) and Germany with 2% (Dec 2016: 3%).

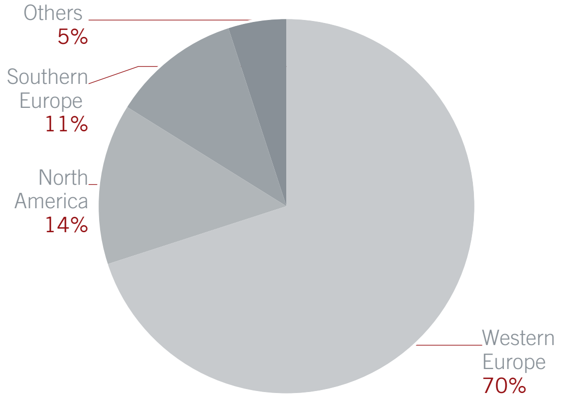
Geographical distribution of loans





Geographical distribution of bonds





Credit portfolio and bonds by currency

	Book value		Relative value	
in EUR million	Jun 2017	Dec 2016	Jun 2017	Dec 2016
EUR	30,022	28,698	81.3%	78.6%
GBP	2,735	2,970	7.4%	8.1%
USD	2,236	2,705	6.1%	7.4%
CHF	1,709	1,863	4.6%	5.1%
Others	218	265	0.6%	0.7%
Total	**36,920**	**36,501**	**100.0%**	**100.0%**

Impaired loans

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

Manual impairment provision

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

Automatic impairment provision

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

General impairment provisions

A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general provision is formed for on- and off-balance-sheet claims in the Group's credit portfolio. This includes bonds, but not positions measured at fair value. As of 30 June 2017, the IBNR portfolio provision amounted to EUR 42.1 million (as of 31 December 2016: EUR 59.0 million).

Non-performing loans (NPLs)

Non-performing loans (NPLs) are defined as all customer exposures in default in accordance with Article 178 CRR (internal 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[2)] 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) Commission Implementing Regulation (EU) 2015/227, Annex V, Art. 145–183.

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

	Book value		Relative value	
in EUR million	**Jun 2017**	Dec 2016	**Jun 2017**	Dec 2016
Government	2,953	2,839	22.6%	21.1%
Real Estate	2,490	1,969	19.1%	14.7%
Public Sector	1,818	1,876	13.9%	14.0%
Portfolio	1,240	1,443	9.5%	10.8%
Services	781	801	6.0%	6.0%
B-2-C Products	448	578	3.4%	4.3%
Pharmaceuticals & Health Care	380	486	2.9%	3.6%
Gaming & Leisure	343	386	2.6%	2.9%
Automotive	291	362	2.2%	2.7%
Investment Funds	272	210	2.1%	1.6%
Retail – Food	259	303	2.0%	2.3%
Transport	217	278	1.7%	2.1%
Hotels	201	220	1.5%	1.6%
Commodity	192	223	1.5%	1.7%
Engineering and B-2-B	176	268	1.4%	2.0%
Wood & Paper	174	226	1.3%	1.7%
Social Housing	132	146	1.0%	1.1%
Telecommunication	114	188	0.9%	1.4%
Chemicals	103	107	0.8%	0.8%
Construction & Building Materials	88	91	0.7%	0.7%
Beverages, Food & Tobacco	73	76	0.6%	0.6%
Leasing	67	58	0.5%	0.4%
Banks	64	135	0.5%	1.0%
Media	49	57	0.4%	0.4%
Utilities	47	49	0.4%	0.4%
NGO	46	49	0.4%	0.4%
Insurance	29	0	0.2%	0.0%
Mining & Metals	0	1	0.0%	0.0%
Total	**13,049**	**13,424**	**100.0%**	**100.0%**

19 | Market risk

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

Both risk categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches, and are fully embedded in the Bank's ICAAP framework. The accounting treatment of the positions is considered in the risk reporting concepts.

In the trading book, risk mitigating measures are performed only if deemed necessary. The risk quantification, limitation and monitoring within the ICAAP framework is carried out using a parametric VaR model. In the first half of 2017, the average value-at-risk of the trading book was measured at minus EUR 0.56 million (Jan–Jun 2016 average: minus EUR 0.55 million) and the value-at-risk as of 30 June 2017 was measured at minus EUR 0.38 million (30 December 2016:

minus EUR 0.74 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

20 | Liquidity risk

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

Liquidity management which comprises intraday and short-term operational liquidity management, liquidity planning and forecasting, structural liquidity management as well as liquidity buffer management is performed by Liquidity & Funding Management which is part of the Treasury Services & Markets division. The short-term operational liquidity management is based on a 30-day rolling forecast that is updated daily, allowing the close tracking and management of the short-term liquidity position. All measures are closely aligned with Market & Liquidity Risk Controlling. Liquidity & Funding 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.

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

The first half 2017 was characterized by a very solid liquidity position by stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Additionally, the Bank once again underpinned its capital market strength by successfully placing an international EUR 500 million public sector covered bond, the first Austrian public sector covered bond since 2014. Furthermore, BAWAG P.S.K. participated with EUR 2 billion in the final call of the ECB's TLTRO activities.

21 | Operational risk

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

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

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

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

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

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

REVIEW REPORT

REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of BAWAG Holding GmbH, Vienna for the period from 1 January 2017 to 30 June 2017. These condensed interim consolidated financial statements comprise the condensed consolidated statement of financial position as of 30 June 2017 and the condensed consolidated income statement, the condensed consolidated statements of cash flows and condensed consolidated statement of changes in equity for the period from 1 January 2017 to 30 June 2017 and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

Management is responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements. Our liability towards the Company and towards third parties is limited in accordance with § 275 par. 2 of the Austrian Commercial Code (UGB).

Scope of review

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements" and with the International Standard on Review Engagements (ISRE 2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity“. A review of interim financial statements is limited primarily to making inquiries, primarily of Company personnel, responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Statement on the consolidated interim management report for the 6 month period ended 30 June 2017

We have read the consolidated interim management report and evaluated whether it does not contain any apparent inconsistencies with the condensed interim consolidated financial statements. Based on our evaluation, the consolidated interim management report does not contain any apparent inconsistencies with the condensed interim consolidated financial statements.

Vienna, 2 August 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

DEFINITIONS

Common Equity Tier 1 capital (CET1)	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Common Equity Tier 1 ratio	Common Equity Tier 1 capital (CET1) / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
IFRS equity	Equity attributable to the owners of the parent; excluding minorities
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets
Leverage ratio	Common Equity Tier 1 capital (CET1) / total exposure (calculation according to CRR, based on BAWAG Holding Group); as of September 2016, the total exposure calculation was adapted from three-month averages to an end-of-period figure in line with changed regulatory requirements
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR, based on Promontoria Sacher Holding N.V. Group)
Net interest margin	Net interest income / average interest-bearing assets; as of year-end 2016, the ratio's denominator was changed from average total assets to average interest-bearing assets and applied retroactively
Net profit	Profit after tax attributable to owners of the parent
NPL ratio	Non-performing loans (NPLs) / exposure; as of June 2017, the ratio's denominator was adapted from loans and receivables incl. provisions to exposure in line with changed regulatory requirements and applied retroactively
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses
Operating profit	Operating income less operating expenses and regulatory charges
Return on equity	Net profit / average IFRS equity
Return on equity (@12% CET1)	Return on equity calculated at a fully loaded CET1 ratio of 12%
Return on tangible equity	Net profit / average IFRS tangible equity
Return on tangible equity (@12% CET1)	Return on tangible equity calculated at a fully loaded CET1 ratio of 12%
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Holding Group, fully loaded)
Risk costs / loans and receivables	Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (including provisions)
RWA density	Risk-weighted assets / total assets
Total capital	Based on IFRS CRR regulatory figures (BAWAG Holding Group) including interim profit and year-to-date loan-loss provision movements, excluding any transitional capital (fully loaded)
Total capital ratio	Total capital / risk-weighted assets

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