easybank

ANNUAL REPORT 2017

EASYBANK AT A GLANCE

easybank is Austria's first direct bank offering a full product portfolio, ranging from current accounts and savings products to credit cards, consumer and housing loans, auto leases, security products and investment funds.

With over 1.3 million customer accounts, *easybank* is Austria's largest and most profitable digital bank operating under a well-recognized brand.

The Bank had a very successful year in 2017, generating EUR 93.8 million in annual profit, up 84.7% versus the prior year, achieving a return on equity ratio of 55.5% and being well capitalized with a fully-fledged Common Equity Tier 1 ratio of 15.1% *easybank* also continued to see strong customer account growth, up 110% in 2017.

easybank strives to be the one-stop, easy-to-use and innovative financial services solution provider. Customers can reach us around the clock on their digital devices or by phone six days a week during and outside normal business hours.

easybank was the recipient of multiple awards in 2017, reiterating our customers' satisfaction with the products and services we provide. These third-party accolades included: #1 direct bank by the Austrian Financial Marketing Association (for the seventh year in a row), "Best Direct Bank in Austria 2017" by *Der Börsianer* and #1 direct bank in a study conducted by the Austrian Association of Consumer Studies.

Our focus in 2018 will be on continuing to make our customers' lives easier. Numerous large investments were made during 2017 that will take shape during 2018. These investments will provide customers with a new, clean digital experience, which will enable them to fulfill their needs from anywhere, at any time in a simple and efficient manner.

On behalf of *easybank* and our employees, we would like to thank our customers and strategic partners for their loyalty and trust, and for helping make *easybank* so successful.

KEY FIGURES

Profit or loss statement (in EUR thousand)	2017	2016	Change (%)	2015	Change (%)
Core revenues	**111,124**	**57,238**	**94.1**	**51,643**	**>100**
Operating income	148,525	73,275	>100	52,294	>100
Operating expenses	(52,102)	(19,379)	>100	(19,107)	>100
Risk costs	(3,345)	(3,575)	(6.4)	(1,161)	>100
Profit before tax	93,077	50,321	85.0	32,026	>100
Annual profit	**93,807**	**50,803**	**84.7**	**30,778**	**>100**

Performance ratios	2017	2016	Change (pts)	2015	Change (pts)
Return on equity	55.5%	44.2%	11.3	37.7%	17.8
Return on risk-weighted assets	16.89%	13.70%	3.19	10.72%	6.17
Return on total assets	2.31%	1.38%	0.93	0.98%	1.33
Net interest margin	1.54%	1.37%	0.17	1.39%	0.15
Cost-income ratio	35.1%	26.4%	8.7	36.5%	(1.4)
Risk costs / loans and receivables	0.22%	0.23%	(0.01)	0.30%	(0.08)

Statement of financial position (in EUR thousand)	2017	2016	Change (%)	2015	Change (%)
Total assets	**4,078,563**	**4,047,081**	**0.8**	**3,335,461**	**22.3**
Customer loans and receivables	1,482,751	982,027	51.0	621,394	>100
Customer deposits	3,808,076	3,895,383	(2.2)	3,209,246	18.7
Equity (UGB)	212,015	125,795	68.5	103,993	>100
Risk-weighted assets	739,160	371,879	98.8	369,949	99.8

Balance sheet ratios	2017	2016	Change (pts)	2015	Change (pts)
Common Equity Tier 1 capital ratio (transitional incl. interim profit)	15.3%	18.6%	(3.3)	18.1%	(2.8)
Total capital ratio (transitional incl. interim profit)	16.0%	20.3%	(4.3)	19.4%	(3.4)
Common Equity Tier 1 capital ratio (fully loaded incl. interim profit)	15.1%	18.9%	(3.8)	17.5%	(2.4)
Total capital ratio (fully loaded incl. interim profit)	15.9%	20.8%	(4.9)	19.4%	(3.5)
Liquidity coverage ratio (LCR)	173%	351%	(178)	108%	64.7
NPL ratio	1.5%	1.0%	0.5	1.6%	(0.1)

The tables in this report may contain rounding differences.

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OUR STRATEGY

easybank – one-stop, easy-to-use, innovative

With over 1.3 million customer accounts, *easybank* is Austria's first and largest direct bank offering a full product suite, ranging from current accounts and savings products to credit cards, consumer and housing loans, auto leases and investment products. We are one of the few direct banks globally and the only direct bank in Austria that offers a comprehensive suite of banking products.

Unlike traditional banks with physical distribution networks, *easybank* operates in a lean, non-traditional manner, distributing products via digital and partner networks. We are a market leader in innovation with an ability to quickly adapt to changes in markets, technology and consumer trends. We continuously focus on investing in new technologies in the banking space and incorporating the best features into our customer offerings. Our goal is to be the one-stop, simple and innovative financial service solution for our customers.

With a rise in new technological advances, customers' access to financial services is moving at a faster pace than ever before. *easybank* benefits from a nimble structure, enabling us to react to new developments quickly, and a long history of banking know-how, which ensures our ability to execute these changes in a safe and secure manner. Through continuous investments in technology and our focus on customer care, we have been delivering our customers a best-in-class direct banking experience for over 20 years. This is supported by the fact that for the past seven years, we have been awarded with the highest Net Promoter Score of any bank or financial institution in Austria and continuously win multiple industry awards that recognize *easybank* as the #1 direct bank in Austria.

Maintaining our position as Austria's leading digital bank

Founded in Vienna in 1997 as a branchless telephone and online bank, *easybank* has always been innovative and ahead of its time. Over the past years, we have entrenched ourselves in the Austrian banking sector with a rigorous focus on offering broad-based, simple products and services along with best-in-class customer service. Innovation, digitalization and speed to market are core to *easybank*'s culture. With close to one million customers, *easybank* continues to see customer growth, a large portion coming through recommendations from existing loyal, trusting and satisfied customers. In 2017, we grew our number of unique customers by 190%, which was primarily driven by the acquisition of PayLife as well as solid organic customer growth across core products. Unlike many other direct banks and fintechs entering the banking space, *easybank* customers tend to be unique in that the majority become long-term customers. Nearly 50% of our customers use *easybank* as their main bank, and 17% of *easybank*'s customers use us as their only bank (in comparison with our closest direct bank competitor with 8% and 5%, respectively).

The customer loyalty we have achieved is the result of our dedication to providing an outstanding customer experience for *easybank* customers. We do not rest on our achievements and continuously look to improve how we can best serve our customers and anticipate their demands. This approach has gained us recognition time and time again. During 2017, *easybank* received numerous third-party accolades that exemplify this dedication, including: #1 direct bank by the Austrian Financial Marketing Association (for the seventh year in a row), "Best Direct Bank in Austria 2017" by *Der Börsianer*, and #1 direct bank in a study conducted by the Austrian Association of Consumer Studies.

Expanding our relationship with current customers to increase product sales

easybank's most valuable asset is our loyal and growing customer base. Through our current brands, subsidiaries and partnerships, *easybank* operates within a customer ecosystem consisting of over three million individuals. Historically, as was the case with most direct banks, our focus was on building a deposit-taking institution that offered customers low-cost banking solutions with excellent customer service. Through the investments made in the past couple of years, *easybank* has developed the capabilities to provide a full suite of retail banking products in an easy and convenient manner. Today, our focus is to not just grow our customer base and be a single product bank, but also to provide all of our customers with the best financial products that fit their current needs.

One of our biggest opportunities for cross-selling lies in our unsecured consumer loan product. Our goal is to reach a loan penetration rate within our customer base equivalent to the Austrian average. During 2017, by focusing on improving the customer journey to obtain an unsecured consumer loan, we saw an increase in new loan volume in this product of 32% year-over-year. During the second half of 2017 alone, the unsecured consumer loan volume increased by 83% versus the same period in the prior year. In addition, we became more targeted on identifying existing customers of ours who may benefit from an unsecured loan and ran multiple campaigns during the second half of 2017. This attributed to an increase in unsecured loans to existing customers by 24% during this time period versus the same period in 2016.

In addition to the increasing success of our ability to provide customers with unsecured loans, we launched a new gold credit card in the fourth quarter of 2017. By analyzing what we know about our customers and paying attention to our customers' needs through various interaction points, we designed the gold card to specifically fit the needs of our customers. Through the use of the same analysis, we began offering the card to existing customers who we anticipated would have the most demand for this product. During the first three months after launching, we ran multiple campaigns which resulted in an upsell rate of over 6% versus the industry average of low single digits.

Utilizing our financial strength to play offense via inorganic growth or strategic partnerships

Unlike many other financial institutions, including fintechs, we focus on creating a profitable relationship with our customers from day one. With pricing discipline and by creating products that make sense for our customer base, we focus on achieving a high level of profit. This profitability provides us with sufficient capital to fund large-scale organic and inorganic growth. We have a dedicated team of experts that source, analyze and review multiple growth opportunities and ensure that we only invest in value-accretive transactions.

Over the past few years, we have demonstrated our capability to not only grow organically, but also grow inorganically with deals that have proven to be highly value-accretive. For us, these transactions do not end once a deal is closed. We see to it that these transactions are effectively integrated into our core businesses and unlock substantial synergies across BAWAG Group.

- In 2015, we closed the acquisition of Volksbank Leasing which has been an integral part of our wholly owned subsidiary, easyleasing
- In October 2017, we acquired one of Austria's leading credit card issuers, PayLife. On top of the strong earnings accretion the deal will bring, the increased payments services scale has unlocked over EUR 5 million in savings within BAWAG Group. In addition, easygroup acquired nearly 600,000 new potentially bankable customers

Apart from utilizing our capital to execute transformative and strategic acquisitions, numerous key investments with both short-term and long-term benefits were made during 2017. One of these key investments was a structural change and shift of focus towards analytics. During 2017, we established a team whose entire focus is understanding our customer base better in order to fully unlock their potential. Through the use of effective data analysis, we have created more targeted marketing campaigns and thus increased overall new customer applications. While our 2017 investments brought immediate top- and bottom-line growth, the majority of the uplift will come in 2018.

Providing customers with simple and transparent products

As a direct bank, providing simple and transparent products is extremely essential. Traditional banks can rely on trained sales personnel at branches to explain any complexities regarding their products. At *easybank,* we ensure that our products and their pricing are self-explanatory. We believe that empowering customers with the information required to make the right decision about their finances benefits all parties involved.

Expanding internationally into Western European markets

During 2017, a substantial investment was made in establishing a greenfield operation in Germany. Many milestones were achieved, including the regulatory approval to open a branch and operate within Germany. In 2018, we will start to reap the benefits of the hard work and investment put into launching this platform, which we have branded "Qlick." The German online loan market, which has a volume of roughly EUR 10 billion and is growing at a rate of 25% per year, is an exciting venture for us.

CORPORATE GOVERNANCE

SUPERVISORY BOARD

As of 31 December 2017, the Supervisory Board of *easybank* consisted of eight members. Effective 24 April, Byron Haynes resigned and Anas Abuzaakouk was appointed as chairman of the Supervisory Board. Effective 24 April 2017, Stefan Barth, Enver Sirucic and Andy Wise were appointed as members of the Supervisory Board. Furthermore, the Works Council delegated Melanie Hotko as a new Supervisory Board member.

The Rules of Procedure of the Supervisory Board comprise the rights and obligations of this board and define the individual committees of the Supervisory Board and their responsibilities. The individual members of the Supervisory Board and the composition of the committees are presented in the section “Boards and Officers of easybank AG.”

Risk and Credit Committee

The approval of loans and credit (as well as other forms of financing) to individual borrowers or groups of associated customers for the purposes of Article 392 of Regulation (EU) No. 575/2013 (exposures that equal 10% or more of the Bank’s eligible own funds) has been delegated to the Risk and Credit Committee. A report about large exposures approved by the Risk and Credit Committee is submitted to the Supervisory Board at least once a year. The Risk and Credit Committee also approves transactions with the Bank’s affiliated parties pursuant to section 28 BWG and the Bank’s material credit policies. It also advises the Supervisory Board on the current and future risk-bearing ability and risk strategy of the Bank and monitors the effectiveness and efficiency of the risk management systems and compliance with the legal provisions and regulatory requirements.

Audit and Compliance Committee

The Audit and Compliance Committee is responsible for reviewing the Bank’s accounts and the annual financial statements and monitors the Bank’s risk management and internal control systems. This committee is also in regular contact with the external auditor, the internal audit department and the Compliance Office. The annual audit plans and reports about the activities of the internal audit department and the Bank’s Compliance Office are also submitted to the Audit and Compliance Committee.

Remuneration Committee

The Remuneration Committee approves general principles of the Bank’s remuneration policy. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c BWG, except for those pertaining to Managing Board members.

Nomination Committee

The Nomination Committee deals with Managing Board succession planning and the regular Fit & Proper evaluation of Managing Board members and Supervisory Board members. Among other tasks, this committee is also responsible for the approval of the assumption of executive functions by members of the Managing Board in companies not belonging to the group.

Following recent changes in the Austrian Banking Act in accordance with the principle of proportionality *easybank* will integrate the agendas of its Risk and Credit, Remuneration and Nomination Committee in the Supervisory Board in 2018.

MANAGING BOARD

As of 31 December 2017, the Managing Board of *easybank* consisted of four members.

- Sat Shah, Chief Executive Officer (CEO)
- Julian Blazar, Chief Growth Officer (CGO)
- Helmut Kaufmann, Chief Risk Officer (CRO)
- Rainer Henke, Chief Financial Officer (CFO)

Chief Operating Officer Wolfgang Hanzl resigned from the Managing Board as of 28 February 2017. Besides the resignation of Wolfgang Hanzl as a member of the Managing Board, the board remained unchanged. Chief Executive Officer Sat Shah took over the responsibilities of Wolfgang Hanzl. (The members of the Managing Board are listed in the notes in the section "Boards and Officers of easybank AG").

The Rules of Procedure of the Managing Board define the responsibilities and tasks of this board.

COMPLIANCE

BAWAG Group's Compliance Office also works for *easybank*. Regular reports are submitted directly to the Managing Board of *easybank*, which in turn reports to the Audit and Compliance Committee of the Supervisory Board.

The key responsibilities of the Compliance Office are preventing money laundering and combating terrorism financing, monitoring compliance with sanctions, securities compliance and the prevention of insider trading, market abuse and conflicts of interest. A series of detailed guidelines have been put into place to ensure compliance with all legal requirements.

In addition to all relevant laws such as the Securities Supervision Act, all employees are also bound by a Compliance Code that contains, among other things, guidelines for business conduct and customer service, for how conflicts of interest are to be handled and for preventing market abuse and money laundering.

REPORT FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The Supervisory Board of *easybank* properly fulfilled all duties incumbent upon it by law, the Bank's Articles of Association and its Rules of Procedure.

The Managing Board informed the Supervisory Board of all material issues in a timely and comprehensive manner either in writing or verbally. In addition to periodic meetings, the chairmen of the Supervisory Board and of the Audit and Compliance Committee discussed current business matters with the Managing Board members. The Managing Board of the Bank was continuously monitored and regularly advised.

The annual financial statements for 2017 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, A-1090 Vienna.

The audit revealed no reason for objections. The legal regulations were complied with in full, and an unqualified auditor's opinion was issued. After an in-depth discussion, the Supervisory Board approved and adopted the annual financial statements for 2017 in accordance with section 96 para 4 Stock Corporation Act. The financial statements were noted by the Supervisory Board.

The Supervisory Board would like to take this opportunity to explicitly welcome our PayLife team and thank all of the Bank's employees for their performance and sustained commitment in 2017.

Anas Abuzaakouk
Chairman of the Supervisory Board

Management Report

ECONOMIC DEVELOPMENTS

Macro trends

Economic conditions continued to improve in Austria throughout the year 2017. Austria's real gross domestic product growth accelerated to a rate of approximately 3% in 2017, the highest growth rate in a decade. The increase in growth from a rate of 1.5% in 2016 was broadly-based and was driven by increasing investment activity, solid growth in private consumption and a recovery in demand for Austrian exports. Private consumption was supported by population growth, a decrease in the unemployment rate, improved consumer confidence and a stable savings rate. Corporates as well as private households continued to prove financially sound. On the back of increasing revenues, government debt consolidated to levels slightly above 80% of GDP and is expected to decrease further.

The discussions around the future economic policy agenda of the newly elected government in Austria center around reducing red tape, deregulation, increasing labor market flexibility, lowering the tax burden for lower and middle income families and fostering investments through the favorable tax treatment of retained earnings, for example.

In 2018, more than 100 million people will live within the DACH region. The growth momentum in the region, which has an annual gross domestic product of more than 1/3 of the euro area, remains very supportive. With 2.7% in 2017, Germany's real gross domestic product recorded the strongest annual expansion since 2011. In addition to industrial production and foreign trade, private consumption provided the largest contribution to growth. Low inflation rates and a labor market close to full employment support the financial position of German households.

Economic and financial conditions throughout the European continent improved in 2017, highlighted by an uptick in real gross domestic product growth to 2.4% in the European Union.

Market developments

The dynamic economic environment in 2017 resulted in solid loan demand from households in the Austrian lending market. The outstanding volume of loans for housing purposes increased in line with real estate prices, while loans for non-housing purposes grew at somewhat lower rates similar to consumer price inflation. Real estate prices grew less dynamically than in 2016 with the driver of growth continuing to shift from apartments in Vienna to single family homes in the rest of Austria. Deposits from Austrian households continued to increase despite the low interest rate environment. The increasing investment activity was accompanied by increasing loan demand from Austrian corporations. The ratio of domestic credit provided by the financial sector to GDP remains below the OECD average and home ownership is low in Austria compared to the European average.

In 2017, the number of branches of Austrian banks declined at an accelerating rate for the fifth year in a row. The overall balance sheet of the Austrian banking sector decreased while customer assets and customer liabilities increased, reflecting the trend towards a more customer centered business.

Outlook

Structural as well as cyclical dynamics continue to support the outlook for the Austrian and German economy in 2018. Loan growth is sustainable and well supported by underlying macroeconomic developments. The Austrian population is expected to grow above the European average on the back of growth in urban areas, especially in the greater Vienna region.

Automation and digitalization will continue to drive the well-established trends towards more operational efficiency and enhanced customer experience in the banking sector.

Political risks remain elevated on a global scale but are expected to be less pronounced for Europe. The normalization of monetary policy by the ECB is expected to result in a reduction of crisis measures and a discussion on ending negative interest rates while the US Fed is expected to hike key interest rates.

Given the sound financial position of private households and corporates, default rates are expected to remain at moderate levels. With a focus on Austrian and German retail banking, *easybank* is well positioned to profit from the favorable economic environment.

FINANCIAL REVIEW

Assets

in EUR thousand	Balance 31/12/2017	Share of total 31/12/2017	Balance 31/12/2016	Share of total 31/12/2016	Change	
Loans and advances to customers	1,482,751	36%	982,027	24%	500,724	51.0%
Loans and advances to credit institutions	2,433,137	60%	2,864,191	71%	(431,054)	(15.0)%
Equity interests and shares in subsidiaries	48,583	1%	29,282	1%	19,301	65.9%
Other assets	114,092	3%	171,581	4%	(57,490)	(33.5)%
Total	**4,078,563**	**100%**	**4,047,081**	**100%**	**31,482**	**0.8%**

The Bank's assets totaled EUR 4,078.6 million on 31 December 2017.

easybank met all minimum reserve and liquidity requirements laid down in the Austrian Banking Act (BWG in the following) and in Regulation (EU) No. 575/2013 (EU Capital Requirements Regulation, CRR in the following) throughout 2017 and had deposits at the Austrian national bank totaling EUR 37.2 million on 31 December.

Loans and advances to customers increased by 51,0% to EUR 1,482.8 million in 2017 (2016: EUR 982.0 million), including receivables to the wholly owned leasing subsidiary easyleasing GmbH (following the merger with BAWAG P.S.K. LEASING GmbH in Q2 2017) as well as to Leasing-west GmbH in the total amount of EUR 858.5 million (2016: EUR 690.1 million) as well as loans and advances to customers in the amount of EUR 323.1 million (2016: EUR 291.9 million), while PayLife added EUR 301.2 million in 2017.

In connection with the PayLife portfolio, loan-loss provisions increased by EUR 4.4 million in 2017, rising from EUR 2.3 million to EUR 6.7 million.

On balance IBNR according to the Financial Reporting Amendment Act (Rechnungslegungsänderungsgesetz 2014) additionally amounted to EUR 1.5 million, of which EUR 0.1 million can be attributed to PayLife. In total, risk provisions for on balance positions stood at EUR 8.2 million.

In line with the increase in loans and advances to customers, loans and advances to credit institutions decreased by 15.0% to EUR 2,433.1 million (2016: EUR 2,864.2 million) in 2017.

The tangible fixed assets came to EUR 2.6 million (2016: EUR 3.6 million), and shares in affiliated companies and other equity interests changed to EUR 48.6 million (2016: EUR 29.3 million) following a capital contribution of EUR 19.3 million in the course of the merger of the leasing companies.

Liabilities and equity

in EUR thousand	Balance 31/12/2017	Share of total 31/12/2017	Balance 31/12/2016	Share of total 31/12/2016	Change	
Savings deposits	2,359,974	58%	2,765,560	68%	(405,586)	(14.7)%
Other liabilities to customers	1,448,103	36%	1,129,822	28%	318,280	28.2%
Amounts owed to credit institutions	26,161	1%	6,196	0%	19,965	322.3%
Other liabilities	32,311	1%	19,707	0%	12,603	64.0%
Equity incl. retained earnings	212,015	5%	125,795	3%	86,220	68.5%
Total	**4,078,563**	**100%**	**4,047,081**	**100%**	**31,482**	**0.8%**

Liabilities to customers slightly decreased by 2.2% to EUR 3,808.1 million (2016: EUR 3,895.4 million), accounting for roughly 93% of the balance sheet total.

Liabilities to credit institutions changed to EUR 26.2 million (2016: EUR 6.2 million); the increase is mainly attributable to the PayLife business.

Provisions increased from EUR 3.8 million to EUR 10.6 million, mainly driven by the acquisition of PayLife and also including EUR 1.9 million in LLPs for performing off balance loans.

Total equity before supplementary capital and dividends increased to EUR 212 million (2016: EUR 125.8 million) following an increase in the profit for the year from EUR 50.8 million in 2016 to EUR 93.8 million in 2017.

The share capital (EUR 25 million divided into 175,000 shares), the committed capital reserve (EUR 356 thousand), the statutory retained earnings (EUR 2.1 million) and the fund for general banking risks (EUR 8.5 million) remained unchanged compared to the previous year.

easybank is a wholly owned subsidiary of BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K. in the following).

The transfer of the auto leasing operations of BAWAG P.S.K. LEASING GmbH and the subsequent capital contribution by BAWAG P.S.K. in 2015 led to an uncommitted capital reserve in the amount of EUR 29.0 million and a corresponding carrying amount of then BAWAG P.S.K. LEASING GmbH at *easybank*, while the capital contribution of *easybank* in the course of the merger of the leasing companies in 2017 increased the carrying amount correspondingly to EUR 48.4 million.

The acquisition of the commercial issuing business PayLife further increased the uncommitted capital reserve to EUR 66.7 million in total (2016: EUR 29.0) against an increase in risk-weighted assets of approximately EUR 246 million.

EUR 3.1 million were allocated to the liability reserve pursuant to section 57 (5) BWG, which now amounts to EUR 6.7 million. The other retained earnings are unchanged at EUR 6.2 million. The supplementary capital also remained unchanged at EUR 7.027 million.

At a capital requirement pursuant to Article 92 CRR of EUR 59.1 million, the bank's eligible own funds pursuant to Part Two CRR total EUR 118.5 million including interim profit after dividends. The capital requirement for operational risk was calculated using the Standardized Approach, while the IRB approach was used for credit risk except for PayLife credit card exposures.

With a core capital ratio of 15.28% and a total capital ratio of 16.03%, assuming a dividend of EUR 90 million, *easybank's* capital adequacy is considerably above average. The bank had excess own funds of EUR 59.4 million as of 31 December 2017.

In the financial year 2016, the ECB granted approval in accordance with Article 113 (6) CRR to assign a risk weight of 0% to *easybank's* exposures to its subsidiary easyleasing GmbH, which further strengthened the capital position of *easybank*.

The ECB further granted approval to exempt inflows from intragroup companies from the inflow cap within the LCR in accordance with Article 425 (1) and Article 33 (2) (b) of Commission Delegated Regulation 575/2013, which further substantiated the excellent liquidity situation of *easybank*.

Income statement

in EUR thousand	2017	2016	Change	Change (%)
Net interest income including income from securities	62,673	50,436	12,237	24.3
Net income from equity interests	36,197	15,814	20,383	>100
Net commission income	48,451	6,802	41,649	>100
Net profit from trading activities	149	51	98	>100
Other operating income	1,056	173	883	>100
Operating income	**148,525**	**73,275**	**75,250**	**>100**
Operating expenses	(52,102)	(19,379)	(32,724)	>100
Operating profit	**96,423**	**53,896**	**42,526**	**78.9**
Risk costs	(3,345)	(3,575)	230	(6.4)
Profit on ordinary activities	**93,077**	**50,321**	**42,756**	**85.0**
Taxes	730	481	249	51.6
Annual profit	**93,807**	**50,803**	**43,005**	**84.7**
Changes in reserves, retained earnings, advance payments	2,969	167	2,803	>(100)
Net profit	**96,777**	**50,969**	**45,807**	**89.9**

Net interest income came in at EUR 62.7 million, an increase of EUR 12.2 million compared to EUR 50.4 million realized in the previous year. The increase in net interest income was positively supported by the expansion of customer loans and the leasing business as well as by *easybank's* funding structure.

Net commission income increased by EUR 41.6 million to EUR 48.5 million following the acquisition of the fee-driven credit card issuing business of SIX in 2017.

easybank's strategic subsidiaries made a strong contribution to the result from participating interests in the amount of EUR 36.2 million, including same-phase dividends from easyleasing GmbH of EUR 35.8 million as well as from easy green energy GmbH & Co KG of EUR 0.4 million.

Operating income for the period showed an increase of EUR 75.2 million to EUR 148.5 million (2016: EUR 73.3 million). Operating expenses were generally kept on a comparable level to the previous year, while numerous large investments were made in *easybank's* future in 2017. The international expansion to Germany, the integration of PayLife, regulatory project expenditures and digitalization efforts (paperless office) added up to EUR 24.6 million (2016: EUR 19.4 million), underscoring *easybank's* high commitment to invest and further develop. PayLife additionally added EUR 27.5 million to total operating expenses of EUR 52.1 million in 2017.

easybank's contribution to the statutory deposit guarantee scheme and the Austrian bank resolution fund amounted to EUR 2.78 million (2016: EUR 2.5 million).

The Bank posted a significantly improved operating profit for the period of EUR 96.4 million in 2017, up 78.9% compared to EUR 53.9 million in the previous year.

Risk costs were kept stable at EUR 3.3 million (2016: EUR 3.6 million), primarily driven by additional risk costs attached to the PayLife portfolio, which were offset by an improvement in IBNR balances.

easybank achieved a result on ordinary activities of EUR 93.1 million, an increase of 85%. Taxes follow *easybank's* tax allocation agreement in BAWAG Group and included deferred income taxes in the amount of EUR 0.8 million and a prepayment for the new bank levy in the amount of EUR 0.1 million.

In 2016, the Austrian government passed a resolution on the bank levy, generally lowering the amount of the bank levy and enabling a prepayment while also lowering the eligibility thresholds. As a result of this legislation, *easybank* is subject to the new bank levy and opted for the down payment.

Below the line, *easybank* reports a net profit of EUR 96.8 million, including a profit carried forward of EUR 3.0 million.

Own funds

in EUR thousand	31/12/2017	31/12/2016
Share capital	**25,000**	**25,000**
Reserves including profit for the fiscal year 2016	97,015	52,795
Deduction of intangible assets	(5,215)	(3,051)
Shortfall IRB risk provisions	(3,851)	(5,741)
Common Equity Tier I (CRR) / Core Tier I (BWG)	**112,949**	**69,003**
Supplementary and subordinated debt capital	5,629	7,027
Excess IRB risk provisions	355	983
Shortfall IRB risk provisions	(428)	(1,435)
Supplementary capital – Total Tier II (CRR/BWG)	**5,556**	**6,575**
Own funds	**118,505**	**75,578**
Own funds ratio	**16.0%**	**20.3%**
Required own funds	59,133	29,750
Excess own funds	59,372	45,828

RISK REPORT

INTRODUCTION AND OVERVIEW

The following risks including their respective sub-risks are considered as material for *easybank*:

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

Due to its focus on retail banking centered on current and savings accounts, lending and credit card services, *easybank* is exposed to these risks to a relatively limited extent.

As a member of the BAWAG P.S.K. bank group, *easybank* is integrated into this group's risk management organization. The portfolio risk figures presented in the consolidated annual report for BAWAG Group also include the figures for *easybank*.

In addition, *easybank* takes all necessary measures as an individual institution to adequately manage, monitor and limit the business and operational risks to which it is exposed. To this end, a risk report covering all material risk positions is drawn up monthly.

RISK MANAGEMENT FRAMEWORK AND RISK ORGANIZATION

The members of the group supervisory board and managing board are responsible for BAWAG Group's risk strategy. The principles of risk management, limits for all relevant risks and procedures for monitoring these risks are documented in risk manuals and work guidelines. *easybank* also has its own manuals and guidelines that document the internal processes and deviations from BAWAG P.S.K.'s practices. The Managing Board of *easybank* is responsible for these documents. Policies are established to identify and analyze the risks faced by BAWAG Group, to set appropriate risk limits and controls, and to monitor risks and compliance with the specified limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, current legal requirements and changes in the products and services offered.

easybank has agreements with BAWAG P.S.K. concerning services of its risk divisions. These are the following divisions:

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

Internal audit

easybank set up its own internal audit department pursuant to section 42 (6) 3 BWG. *easybank* is also subject to the audits conducted by the internal audit department of BAWAG P.S.K. Group. The existing audit plans, which are adopted annually by the group managing board on the basis of recommendations from the internal audit department, lay down the types and scopes of audits that will be completed to ensure that the entire Company is audited sufficiently within a reasonable period of time.

SPECIFIC RISKS OF EASYBANK

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 internal ratings-based (IRB) approach is used to calculate the minimum capital requirement for credit risk except for the newly acquired PayLife credit card exposure. The capital requirement for these exposures was calculated using the Standardized Approach.

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

The specific risk categories from the uniform BAWAG P.S.K. master scale are assigned to the customer on this basis and represent its individual estimated probability of default. All non-consumer exposure components that exist in BAWAG Group are aggregated at the customer and customer group level using a specific software application. Duties requiring that exposures be reported to the Managing Board and Supervisory Board of *easybank* are defined for customers/groups of affiliated customers by risk grades to identify the concentration of risk exposure.

A risk report covering the following is submitted to the Managing Board every month and to the Supervisory Board every quarter:

- KRIs Overview
- Credit risk: rating distribution, risk positions (exposure, RWA, NPL, LLP, IBNR), risk indicators (PDs, expected loss ratios, LTV, NPL ratios, days past due ratios), development of risk costs
- Market risk: development of PVBP values, interest rate gap analysis
- Operational risk: development of risk costs

Risk policy for retail and small business customers

The framework for the granting of loans to retail and small business customers is defined in the Bank's credit risk guidelines. These guidelines are reviewed regularly and adjusted to changes in business conditions as well as to new knowledge whenever necessary.

Collateral and valuation of residential and commercial real estate

All types of acceptable collateral are listed in the Group Collateral Catalogue. Adequate haircuts are defined for each type of collateral.

The central department Valuation Residential Real Estates determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich) for Austrian residential properties.

The values of commercial properties are appraised individually by experts in the central department Valuation Commercial Real Estates, by selected external appraisers commissioned by the group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

Portfolio development in 2017

The following table shows *easybank's* portfolio broken down by individual segments as of the end of 2016 and 2017.

Credit risk by customer segment

	Carrying value loans[3]		Securities including funds		Off-balance-sheet transactions[4]		Total risk	
in EUR thousand	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Banks[1]	2,433,137	2,864,191	–	–	10,210	–	2,443,347	2,864,191
Sovereigns/ Public sector	–	–	16	16	2	–	18	16
Corporates	905,867	725,280	–	–	15,527	11,006	921,394	736,286
Retail[2]	576,884	256,747	–	–	15,887	14,442	592,772	271,189
Total	**3,915,888**	**3,846,218**	**16**	**16**	**41,627**	**25,447**	**3,957,531**	**3,871,681**

1) Primarily contains investments with BAWAG P.S.K.
2) Increase is primarily due to the acquisition of PayLife.
3) Carrying value loans without participations and shares in affiliated undertakings amounting to EUR 48.6 million.
4) Includes credit risks in the form of bank guarantees, (50% risk weight) and undrawn and non-revocable credit facilities.

The total risk across all segments increased by 2% from EUR 3.8 billion to EUR 3.9 billion. The strongest increase was for the retail segment, which was driven by the acquisition of PayLife. The exposure in the corporates segment is mainly driven by refinancing transactions with the wholly owned subsidiary easyleasing GmbH. The refinancing of the leasing business amounted to EUR 858.5 million.

Non-performing loans

Exposures relating to all customers in default risk class 8 are categorized as non-performing loans (NPL), regardless of whether a limit has been exceeded or a payment missed on an individual account or not. As soon as the material exposure of a customer is over 90 days past due, an impairment provision has been allocated or a customer-specific default criterion applies, the customer is considered to be in default with all of its exposure-related products and is assigned to risk class 8.

The following table shows the development and coverage of NPLs at the end of 2016 and 2017:

Development and coverage of NPLs

	Exposure		Impairment/provisions		Collateral		Net position		Coverage	
in EUR thousand	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
Banks	–	–	–	–	–	–	–	–	–	–
Sovereigns/Public sector	–	–	–	–	–	–	–	–	–	–
Corporates	1	–	1	–	–	–	0	–	78.4%	–
Retail	9,326	3,002	6,678	2,338	990	313	1,659	352	82.2%	88.3%
Total	**9,327**	**3,002**	**6,678**	**2,338**	**990**	**313**	**1,659**	**352**	**82.2%**	**88.3%**

The non-performing loans stem almost entirely from the retail segment. The total volume of NPLs increased from EUR 3,002 thousand to EUR 9,327 thousand. This increase was driven by the PayLife acquisition.

Market risk

Market risk refers to the risk of loss for *easybank* resulting from disadvantageous changes in the fair values of assets due to changes in trading prices, market indices, market spreads and/or market liquidity levels. Market risk includes interest rate risk and currency risk.

In BAWAG P.S.K. Group, the identification, measurement, analysis and management of market risk is performed by Market & Liquidity Risk Controlling. All strategies, organizational procedures and principles of risk management and monitoring are documented in an internal group market risk manual.

easybank does not maintain a securities trading book. For this reason, market risk is only measured for the banking book.

Risks arising from changes in the fair value of transactions because of changes in the yields being traded on the market for top-rated interest-bearing securities as well as interest surplus risks are considered interest rate risk. Such risks can have an effect on the Bank's own investments in bonds, on time deposits and on interest-related forward transactions. *easybank* measures and monitors interest rate risk at the portfolio level.

Market risk is bounded by the market risk limits and outlier ratios that are approved by *easybank's* Managing Board. These are centrally calculated and monitored by BAWAG P.S.K. for *easybank*. Determining the market risk provides a basis for deciding on transactions that are relevant for the banking book.

An additional sensitivity analysis by the Risk Pro ALM software measures interest rate risk for the specific date using the present value of a basis point (PVBP) concept. The present value of a basis point is an absolute value that is derived from the duration of interest-bearing financial instruments and indicates the change in the net cash value of the instrument that will occur when the market yield curves shift by one basis point (0.01%). The PVBP calculation for *easybank* as of 31 December 2017 yields plus EUR 21,055 (2016: minus EUR 305). The PVBP limit amounted to EUR ±40,000 for the financial year. The ratio between the daily basis point value for a yield shift of 200 basis points and the eligible own funds (internal outlier ratio) was 3.7% as of 31 December 2017 (2016: 0.1%).

The replication model used by *easybank* for current account deposits and other call deposits was most recently reviewed in November 2017. The replication assumptions for the current account deposits consist of a combination of the rates for overnight, three-month and ten-year terms; the assumptions for the other sight deposits comprise a combination of the rates for overnight, three-month, six-month and ten-year terms. Rolling investments were assumed in modeling the replication assumptions.

easybank uses term deposits as on balance instruments and interest rate swaps as off balance instruments for the management of interest rate risks. As of 31 December 2017, *easybank* had concluded 46 interest rate swaps totaling a nominal value of EUR 970 million (2016: EUR 115 million) with maturities of up to 10 years. *easybank* uses these interest rate swaps to set up a macro hedge for the interest rate risks of the banking book as a whole. They are included in the PVBP calculation and in the calculation of the outlier ratios of *easybank*. The net market value as of 31 December 2017 totaled minus EUR 3.7 million (2016: plus EUR 209 thousand). Further information is provided in the notes in the section "Information on financial derivatives and hedging transactions."

Foreign exchange risk is part of market risk and is the risk that the Bank may incur a loss resulting from a possible disadvantageous change in the value of an open spot exchange position (in EUR), an open claim or liability in a foreign currency or an open forward transaction. *easybank's* foreign currency exposures arise from loans granted in foreign currencies and are fully hedged. *easybank* has no relevant foreign exchange risk in the banking book.

Liquidity risk

In addition to the risk of not being able to hold a liability until maturity (liquidity risk in a narrower sense, call risk), this risk also includes the danger that the Bank will be unable to obtain sufficient liquidity because of unexpected conditions (refinancing risk). It also includes the risk that investors will not be able to liquidate or settle their positions because of a lack of market depth or possible slides or losses on the markets (market liquidity risk).

easybank's business focuses traditionally on customer deposits, and the Bank has excellent liquidity. Most surplus deposits are invested with its group parent.

The liquidity cover ratio (LCR) and net stable funding ratio (NSFR) for *easybank* are calculated on a monthly basis in cooperation with BAWAG P.S.K. and reported to the supervisory authorities. Compliance for the LCR pursuant to Article 38 of the Commission Delegated Regulation from 10 October 2014 based on Article 460 CRR has been mandatory since 1 October 2015. The minimum requirement for 2017 was 80%, increasing to 100% for 2018 and subsequent years. The LCR calculation for *easybank* as of 31 December 2017 yields 173% (2016: 351%). As part of the operational liquidity management, the factors that are relevant for the calculation of the LCR are monitored on an ongoing basis. The results of this monitoring are analyzed, and appropriate measures are taken by *easybank's* Managing Board if necessary.

easybank manages its liquidity risk by appropriately structuring the maturities of its receivables and payables and its interest rates and minimum commitment periods. Measures, methods, processes and responsibilities according to the national and European regulations are defined in the manual governing the liquidity planning and management process and in the liquidity contingency plan. Daily reports on all lending and deposit positions are prepared as part of the financial controlling to monitor the liquidity situation.

Operational risk

Operational risk covers potential losses arising from insufficient and/or failed systems, methods or processes as a result of intentional or accidental misconduct by employees or as a result of external influences. This definition includes legal risk to the extent that such incidents arise from operational causes as specified in this definition. It does not include strategic risk or business risk.

BAWAG Group – including *easybank* – continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 of Regulation (EU) No. 575/2013 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 losses resulting from operational risk are collected in a centrally administrated web-based database within clearly defined regulations and processes.

The risk organization applies a risk control self-assessment (RCSA) concept in managing operational risk. All business units of BAWAG P.S.K. Group 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 embedded in the IT infrastructure) are designed to allow the group to manage OpRisk.

Participation risk

Participation risk is the risk that an equity investment held by the Bank can lead to losses from provided equity capital, earnings transfer agreements or liability risks.

easybank owns easyleasing GmbH. The risk management for easyleasing GmbH is integrated into the risk organization of BAWAG P.S.K. Group. *easybank* exerts direct influence through delegated personnel at the senior management level of easyleasing GmbH.

easybank holds a 49% share in easy green energy GmbH & Co KG, a joint venture in cooperation with the Austrian power utility Unsere Wasserkraft GmbH & Co KG. This company provides electricity and natural gas on the Austrian market. Compliance with *easybank's* risk principles is ensured through representatives in the company's executive boards and committees.

easybank also holds a 0.53% share in Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., a 1% share in Einlagensicherung AUSTRIA Ges.m.b.H. and a 0.1% share in BAWAG P.S.K. Datendienst Gesellschaft m.b.H.

Other risks

Other risks covers a wide range of different risks that cannot be assigned to one of the other categories above.

These include:
Business risk and strategic risk, in other words the risk of financial damage from decisions with a long-term effect made on the basis of assumptions that turn out to be incorrect and that have an effect on the development of individual business areas of *easybank* or on the development of *easybank* as a whole.

Sales risks refer to the danger arising from failure to meet sales targets (new business volume and/or margins) in customer business and the negative effects that this can have on the earnings of *easybank*.

Reputational risk is the danger of direct or indirect negative effects arising from damage to the Company's reputation and the associated opportunity costs, such as the loss of customers and higher refinancing costs.

Macroeconomic risks refer to the risks arising from disadvantageous changes in the development of the economies in which *easybank* does business.

HUMAN RESOURCES DEVELOPMENT

easybank's employees are required to be highly flexible because of the Bank's focus on the customers' needs. The ever-increasing demands for improved quality of communication methods also make it necessary for the employees to undergo regular training.

Characteristics such as reliability, initiative and a sense of responsibility combined with the professional qualifications of each of our employees make our success possible.

easybank attaches considerable importance to ongoing employee training and offers a variety of different courses and workshops from IT training to project management and from soft skills development to workshops about self, stress and time management.

The successful completion of the acquisition of the commercial issuing business from SIX in October 2017, operated under the national brand "PayLife", not only added approximately 1.7 million payment cards to *easybank's* portfolio, but above all provided *easybank* with an experienced card team which perfectly meets our employees' strengths.

RESEARCH AND DEVELOPMENT

easybank's business activity is the provision of banking services. The provision of these services does not entail the research and development that is typical of manufacturing companies.

However, *easybank* continues to drive efficiency to ensure a positive customer experience. A particular focus lies on simplifying processes, offering best-in class products that reward customer loyalty, while maintaining high profitability and risk discipline.

Our customers' needs for full and easy digital banking services anytime, anywhere and from any devices, for simple, transparent and value-adding banking services that are easy to use and straight to the point, involve development processes that require a high degree of creativity and drive.

The envisaged launch of a new digital experience across the full product suite in a simple, interactive and responsive design with simplified processes is one of *easybank's* key development areas.

BRANCHES

easybank operates as a direct bank without branches or staffed outlets in Austria. In 2017, *easybank* established a branch in Düsseldorf, Germany, in accordance with Article 35 of Directive 2013/36/EU, as the basis for *easybank's* international expansion.

"Qlick" will be *easybank's* international brand, initially focused on offering installment loans under 10 minutes through mobile apps.

Qlick again follows *easybank's* strategy for simple, easy to use services under a fully digitalized customer experience with lean processes.

OUTLOOK

easybank had a very successful year in 2017, with record earnings and strong customer growth, supplemented by the commercial credit card issuing business acquired in Q4 2017.

The acquisition emphasizes *easybank's* core strategy to make our customers' lives easier while offering products and services worth our customers' trust.

Despite the still-low interest rate and highly competitive environment as well as increased regulatory requirements, we focus on the areas we can control and adapt to those we cannot.

We believe it is extremely attractive to be in retail digital banking and are well positioned to continue leading in this space.

In 2018, our focus will be on continuing to provide our customers unique and innovative products and services under a lean and risk-conscious operating model while expanding our reach both domestically and internationally.

Vienna, 26 February 2018

Sat Shah
Chief Executive Officer

Julian Blazar
Member of the Managing Board

Rainer Henke
Member of the Managing Board

Helmut Kaufmann
Member of the Managing Board

DEFINITIONS

Key performance indicator	Definition / Calculation
AGAAP equity	Equity attributable to the owners of the parent; excluding supplementary capital
Annual profit	Profit after tax before changes in reserves
Common Equity Tier 1 (CET1) capital	Based on CRR regulatory figures
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR)
Net interest margin	Net interest income / average total assets
NPL ratio	Non-performing loans (NPLs) / loans and receivables
Operating income	The total of core revenues, income from equity interests, net profit from trading activities and other operating income
Return on equity	Annual profit / average AGAAP equity
Return on risk-weighted assets	Annual profit / average risk-weighted assets
Return on total assets	Annual profit / average total assets
Risk-weighted assets	Based on CRR regulatory figures
Risk costs / loans and receivables	Provisions and loan-loss provisions (total risk costs) / average loans and receivables, excluding effect of first time application of IBNR
Total capital	Based on CRR regulatory figures
Total capital ratio	Total capital / risk-weighted assets

Financial Statements

STATEMENT OF FINANCIAL POSITION

Total assets

	in EUR		in EUR thousand	
	31/12/2017		31/12/2016	
1. Cash on hand, balances with central banks		**41,305,037**		**145,828**
2. Treasury bills and other bills eligible for refinancing with central banks		**16,242**		**16**
3. Loans and advances to credit institutions		**2,433,137,447**		**2,864,191**
a) Repayable on demand	294,387,339		285,521	
b) Other loans and advances	2,138,750,108		2,578,670	
4. Loans and advances to customers		**1,482,750,760**		**982,027**
5. Participating interests		**146,622**		**146**
6. Shares in affiliated undertakings		**48,436,000**		**29,136**
7. Intangible fixed assets		**5,215,211**		**3,051**
8. Tangible assets		**2,586,665**		**3,552**
9. Other assets		**62,487,553**		**17,758**
10. Prepayments and accrued income		**542,834**		**500**
11. Deferred tax assets		**1,938,264**		**875**
Total assets		**4,078,562,635**		**4,047,081**
Off-balance sheet items				
1. Foreign assets		**2,612,227**		**10,431**

Total liabilities and equity

	in EUR		in EUR thousand	
	31/12/2017		31/12/2016	
1. Liabilities to credit institutions		**26,160,685**		**6,196**
a) Repayable on demand	20,522,449		271	
b) With agreed maturity dates or periods of notice	5,638,236		5,925	
2. Liabilities to customers		**3,808,076,402**		**3,895,383**
a) Other liabilities				
aa) Repayable on demand	3,689,416,052		3,765,983	
bb) With agreed maturity dates or periods of notice	118,660,351		129,399	
3. Other liabilities		**13,647,102**		**7,767**
4. Accruals and deferred income		**1,019,124**		**1,067**
5. Provisions		**10,617,565**		**3,847**
a) Provisions for severance payments	2,774,526		866	
b) Provisions for pensions	75,523		52	
c) Other provisions	7,767,516		2,929	
5a. Fund for general banking risks		**8,500,000**		**8,500**
6. Supplementary capital		**7,026,728**		**7,027**
7. Subscribed capital		**25,000,000**		**25,000**
8. Capital reserves		**66,704,795**		**29,392**
a) Committed	356,295		356	
b) Uncommitted	66,348,500		29,036	
9. Retained earnings		**8,343,705**		**8,344**
a) Statutory reserves	2,143,705		2,144	
b) Other reserves	6,200,000		6,200	
10. Liability reserve pursuant to section 57 (5) BWG		**6,690,000**		**3,590**
11. Net profit for the year		**96,776,528**		**50,969**
Total liabilities and equity		**4,078,562,635**		**4,047,081**

	in EUR		in EUR thousand	
	31/12/2017		31/12/2016	
Off-balance sheet items				
1. Contingent liabilities		**1,691,842**		**1,646**
Thereof: guarantees and assets pledged as collateral security	1,691,842		1,646	
2. Credit risks		**3,400,701,557**		**835,096**
3. Commitments arising from agency services		**871,343**		**648**
4. Eligible own funds pursuant to Part Two Regulation (EU) No. 575/2013 (CRR)		**118,505,191**		**75,578**
Thereof: Supplementary capital	5,556,582		6,575	
5. Required own funds pursuant to Article 92 Regulation (EU) No. 575/2013 (CRR)		**739,160,457**		**371,879**
Achieved capital ratios				
pursuant to Article 92 (1) lit a	15.3%		18.6%	
pursuant to Article 92 (1) lit b	15.3%		18.6%	
pursuant to Article 92 (1) lit c	16.0%		20.3%	
6. Foreign liabilities		**42,746,676**		**46,995**

INCOME STATEMENT

	in EUR		in EUR thousand	
	2017		2016	
1. Interest and similar income		67,303,676		66,184
thereof: from fixed-income securities	360		0	
2. Interest and similar expenses		(4,630,798)		(15,748)
I. Net interest income		**62,672,878**		**50,436**
3. Income from securities and participating interests		36,196,791		15,814
4. Fee and commission income		81,096,882		14,146
5. Fee and commission expenses		(32,646,243)		(7,344)
6. Net profit on financial operations		148,576		51
7. Other operating income		1,056,081		173
II. Operating income		**148,524,965**		**73,275**
8. General administrative expenses		(49,158,623)		(17,398)
a) Staff costs	(18,225,808)		(6,489)	
aa) Wages and salaries	(14,674,776)		(4,862)	
bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries	(2,887,204)		(1,223)	
cc) Other social expenses	(151,473)		(33)	
dd) Expenses for pensions and assistance	(181,498)		(104)	
ee) Allocation to the provision for pensions	(23,165)		0	
ff) Expenses for severance payments and contributions to severance and retirement funds	(307,692)		(266)	
b) Other administrative expenses	(30,932,815)		(10,909)	
9. Depreciation on assets in items 7 and 8		(2,840,765)		(1,771)
10. Other operating expenses		(102,805)		(209)
III. Operating expenses		**(52,102,193)**		**(19,379)**
IV. Operating profit		**96,422,772**		**53,896**
11. Balance of impairment provisions on receivables and allocation to provisions for contingent liabilities and for commitments and income from their release		(3,345,300)		(3,575)
V. Profit on ordinary activities		**93,077,472**		**50,321**
12. Taxes on profit or loss		811,214		868
13. Other taxes		(81,251)		(386)
VI. Annual profit or loss for the year		**93,807,435**		**50,803**
14. Changes in reserves		0		0
a) Retained earnings (statutory)	0		0	
b) Uncommitted Capital reserves	(3,100,000)		0	
c) Liability reserve	3,100,000		0	
VII. Profit for the year		**93,807,435**		**50,803**
15. Profit brought forward from previous year		2,969,093		167
VIII. Net profit or loss for the year		**96,776,528**		**50,969**

SCHEDULE OF CHANGES IN FIXED ASSETS

Changes in fixed assets pursuant to section 226 (1) UGB

	Cost of purchase or conversion				Write-downs (-) / write-ups (+) and impairment losses[1]				Carrying values	
in EUR thousand	As of 1/1/2017	Additions 2017	Disposals 2017	As of 31/12/2017	As of 1/1/2017	Additions	Disposals	As of 31/12/2017	As of 31/12/2017	As of 31/12/2016
Debt instruments from public issuers	16	–	–	16	–	–	–	–	16	16
Participations items	146	1	–	147	–	–	–	–	147	146
Shares in affiliated companies	29,136	19,300	–	48,436	–	–	–	–	48,436	29,136
Intangible assets	7,464	4,112	213	11,363	(4,413)	(1,918)	183	(6,148)	5,215	3,051
Tangible non-current assets	4,749	559	137	5,171	(1,196)	(1,500)	112	(2,584)	2,587	3,552
Total	**41,511**	**23,972**	**350**	**65,133**	**(5,610)**	**(3,418)**	**296**	**(8,732)**	**56,401**	**35,901**

1) Including depreciation of low-value assets in the amount of EUR 16,198.68.

NOTES

RECOGNITION AND MEASUREMENT PRINCIPLES

The annual financial statements were prepared in accordance with the provisions of the Uniform Commercial Code (UGB) and the relevant provisions of the Austrian Banking Act (BWG) that were in force on the balance sheet date and in accordance with the forms specified in Annex 2 to section 43 BWG. The principles used in the preparation of the balance sheet correspond to standard bank practice and have not changed. All information pertaining to the BWG is based on the version in effect as of 31 December 2017.

The Company is a member of the consolidated group headed by BAWAG Group AG, which is domiciled in Vienna. BAWAG Group AG is the most senior parent company which includes the company in its consolidated financial statements. The consolidated financial statements of BAWAG Group AG are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG, are published on the Internet (https://www.bawaggroup.com/financial-results) and are available at BAWAG Group AG's headquarter in Vienna. BAWAG P.S.K. prepares consolidated financial statements according to the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG. These annual financial statements are available at BAWAG P.S.K.'s headquarters in Vienna.

The annual financial statements were prepared according to generally accepted accounting principles and provide a true and fair view of the Company's financial and earnings position. The values of the assets were measured individually under a going concern assumption. The principle of prudence was applied, taking account of the specific characteristics of the banking business.

Loans and advances to credit institutions and customers are generally recognized using the nominal value of the receivable item. In the case of identifiable default risks, impairment provisions are formed for each individual risk item. Loan-loss reserves for incurred but not reported losses were set up on the basis of the expected losses of the receivables in accordance with the provisions of the 2014 Financial Reporting Amendment Act (Rechnungslegungsänderungsgesetz; RÄG 2014). The amount of the IBNR is calculated on the basis of the regulatory Expected Loss Model.

Securities held for purposes of ongoing business are classified as financial investments and recognized as such on the balance sheet. If the acquisition cost is higher than the redemption amount, the difference is written down on a pro rata basis pursuant to section 56 (2) BWG. If the acquisition cost is lower than the redemption amount, the difference is written up on a pro rata basis pursuant to section 56 (3) BWG. All other securities, especially those that can serve as a liquidity reserve, are valued at the lower of cost or market. A securities trading book is not maintained.

Equity investments and subsidiaries are valued at cost. Corresponding impairments are recognized when a non-temporary decrease in value has been determined. If this impairment decreases in subsequent periods, a write-up is recognized up to the cost of acquisition.

Intangible and tangible fixed assets are recognized at cost less scheduled straight-line amortization and depreciation respectively. The amortization rate for intangible assets is between 11 and 33.3%. The depreciation rate for tangible assets is between 10 and 33.3%. Acquisitions in the first half of the year are written down using the full annual rate, acquisitions made in the second half of the year are written down using half the annual rate. Low-value assets with an individual purchase cost of EUR 400 or less are written down in full in their year of acquisition. When conditions change, the amortization or depreciation period is adjusted in accordance with the assessed remaining useful life.

Deferred taxes are calculated using the liability method according to § 198 Abs 9 UGB. The calculation is based on the local tax rates that are legally binding at the time the financial statements are prepared. Deferred tax assets and liabilities result from different methods used to measure assets and obligations on the Statement of Financial Position under UGB and the respective tax code. This generally leads to positive or negative differences in the income tax to be paid for future periods (temporary differences).

Liabilities are valued at their repayment amount in accordance with the principle of prudence.

Provisions for severance payments as of 31 December 2017 were calculated based on actuarial assumptions (discount rate 2.80% [2016: 3.25%], salary increase 3.10%, individual fluctuation discount) using the projected unit credit method in accordance with expert opinion of AFRAC 27.

Provisions for jubilee benefits as of 31 December 2017 were calculated based on actuarial assumptions (discount rate 2.80% [2016: 3.25%], salary increase 2.80%, individual fluctuation discount) using the projected unit credit method in accordance with expert opinion of AFRAC 27.

Provisions for post-employment benefits as of 31 December 2017 were calculated based on actuarial assumptions (discount rate 2.80% [2016: 3.25%], salary increase 1.50%, individual fluctuation discount) using the projected unit credit method in accordance with expert opinion of AFRAC 27.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, after the expiration of the retention period, whereby employees render services as consideration for equity instruments (equity-settled transactions). *easybank* bases the accounting treatment on AFRAC guideline 3 "Accounting for share based payments in financial accounts according to Uniform Commercial Code".

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given on page 39.

That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period, in case of *easybank* only the service condition is applicable). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The **other provisions** were formed in accordance with the expected obligations. They take into account all recognizable risks and obligations.

Receivables and liabilities denominated in foreign currencies are translated at the middle exchange rate on the balance sheet date.

Derivatives in the banking book that are not part of an effective hedging relationship are recognized at the lower of cost or market. Negative fair values of strategic derivatives in the banking book are provided for by means of a provision for pending losses. Positive fair values of strategic derivatives in the banking book are not recognized.

Recoverable **trust assets** are presented off balance in accordance with section 48 (1) BWG.

The **reporting currency** is Euro. Unless otherwise indicated, all figures are shown rounded in thousands of Euros. The following tables may contain rounding differences.

NOTES AND ADDITIONAL INFORMATION

Asset and liability items in foreign currencies (pursuant to section 64 para. 1 item 2 BWG)

in EUR thousand	31/12/2017	31/12/2016
Assets	2,612	5,962
Liabilities	42,747	5,925

Sub-items pursuant to section 45 BWG

in EUR thousand	31/12/2017	31/12/2016
Asset 3: Loans and advances to credit institutions		
- From group companies	2,429,951	2,864,191
Asset 4: Loans and advances to customers		
- From group companies	858,487	690,135
Liability 1: Liabilities to credit institutions		
- From group companies	5,858	6,170
Liability 2: Liabilities to customers		
- From group companies	7,361	3,138
Liability 3: Other liabilities		
- From group companies	2,343	2,098

Loans and advances to credit institutions exclusively contain term deposits to BAWAG P.S.K. AG. The increase in loans and advances to customers from group companies is due to extended credit lines to easyleasing GmbH.

All securities are valued in the same manner as non-current assets pursuant to section 56 (1) BWG. *easybank* AG does not maintain a securities trading book.

Maturity breakdown

The loans and advances to credit institutions and non-credit institutions with agreed maturity dates or periods of notice can be broken down as follows:

in EUR thousand	31/12/2017	31/12/2016
Up to 3 months	61,352	174,643
More than 3 months to 1 year	249,002	715,618
More than 1 year to 5 years	1,965,288	1,507,421
More than 5 years	906,543	1,050,510
Total	**3,182,185**	**3,448,192**

The maturities of the amounts owed to credit institutions and non-credit institutions not payable on demand can be broken down as follows:

in EUR thousand	31/12/2017	31/12/2016
Up to 3 months	10,699	13,429
More than 3 months to 1 year	34,758	25,317
More than 1 year to 5 years	77,130	86,419
More than 5 years	1,949	13,183
Total	**124,536**	**138,348**

Information on asset item 9 – Other assets

in EUR thousand	31/12/2017	31/12/2016
Receivables from payroll accounting	1,622	454
Receivables from credit card services	1,181	965
Receivables from input tax	31	49
Receivables from subsidiaries	36,231	15,917
Other receivables	23,423	373
Total	**62,488**	**17,758**

The receivables from subsidiaries include a dividend from easyleasing GmbH in the amount of EUR 35,800 thousand. Other receivables include a receivable from the acquisition of PayLife in the amount of EUR 10,861 thousand. All other assets have a maturity of less than one year.

Information on liabilities item 3 – Other liabilities

in EUR thousand	31/12/2017	31/12/2016
Payables taxes	1,517	1,335
Other liabilities	5,493	573
Intragroup liabilities	2,343	2,098
ATM settlement	4,294	3,761
Total	**13,647**	**7,767**

Other liabilities include accrued fees for MasterCard/VISA in the amount of EUR 815 thousand. Of the amounts (expenses) in the table above, EUR 13,647 thousand (2016: EUR 7,767 thousand) will come due after the balance sheet date.

Information concerning related parties pursuant to section 238 para.1 item 4 UGB

Financing agreements with group companies and equity investments are concluded at standard market terms as of the time of the transaction. There are no profit or loss transfer agreements with subsidiaries in place.

Information on equity investments pursuant to section 238 (1) Z 4 UGB

in EUR thousand	Company headquarter	General partner	Equity 31.12.2017	Nominal capital	Share in equity	Profit for the year 2017	Carrying amount 31/12/2017
easyleasing GmbH	1100 Vienna, Quellenstraße 51–55		46,593	100	100%	16,453	48,436
easy green energy GmbH	1100 Vienna, Quellenstraße 51–55		51	35	49%	11	38
easy green energy GmbH & Co KG	1100 Vienna, Quellenstraße 51–55	easy green energy GmbH	1,233	100	49%	1,133	107
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H.	1010 Vienna, Börsegasse 11		n/a	70	0.5%	n/a	0
Einlagensicherung AUSTRIA Ges.m.b.H.	1010 Vienna, Börsegasse 11		n/a	100	1%	n/a	1
BAWAG P.S.K. Datendienst Gesellschaft m.b.H.	1100 Vienna, Quellenstraße 51–55		704	400	0.1%	0	0

Provisions

Other provisions not reported separately on the balance sheet have been formed primarily for staff, tax audit, restructuring and loan-loss provisions for off-balance exposures.

The contingent liabilities from the granting of credit by way of bank guarantee and unused lines of credit were as follows on the balance sheet date:

in EUR thousand	31/12/2017	31/12/2016
Contingent liabilities	1,692	1,646
Unused lines of credit	3,400,702	835,096

Contingent liabilities result primarily from unused credit lines on credit cards from PayLife.

Unused lines of credit include credit lines for corporate and retail customers, which were not utilized at the balance sheet date. Deferred tax assets amounted to EUR 1,938 thousand (2016: EUR 875 thousand) and are primarily related to IBNR (EUR 851 thousand; 2016: EUR 724 thousand), social capital provisions (EUR 320 thousand; 2016: EUR 97 thousand) and other provisions, which are not tax deductible (EUR 567 thousand; 2016: EUR 54 thousand). The applied tax rate is 25%.

Own funds

The share capital amounts to EUR 25,000,000 and is divided into 175,000 shares.

The supplementary capital in the amount of EUR 7,026,728.34 was issued in the form of three commercial obligation certificates. One commercial obligation certificate in the amount of EUR 2,300,000 and another in the amount of EUR 4,000,000 are linked to the 12-month Euribor with a premium. The remaining supplementary capital in the amount of EUR 726,728.34 has a fixed annual interest rate of 6%.

The term of the supplementary capital ends on 1 January 2022. The supplementary capital is compliant with the requirements of Article 63 CRR but is only partially eligible due to the remaining maturity of less than five years.

The interest expenses for the supplementary capital in financial year 2017 amounted to EUR 78 thousand (2016: EUR 149 thousand).

The other retained earnings remained unchanged during the reporting period and total EUR 6,200,000.

The liability reserve pursuant to section 57 (5) BWG increased to EUR 6,690,000.

The statutory reserve remained unchanged compared with the prior year and amounts to EUR 2,143,704.72. The fund for general banking risks also remained unchanged compared with the previous year and totals EUR 8,500,000.

The uncommitted capital reserve increased by EUR 37,312,500 thousand to EUR 66,348,500 thousand mainly due to the purchase of the PayLife credit card portfolio, which was financed by BAWAG P.S.K. AG.

Breakdown of core and supplementary capital components

in EUR thousand	31/12/2017	31/12/2016
Fund for general banking risks	8,500	8,500
Subscribed capital	25,000	25,000
Capital reserves	66,705	29,392
Retained earnings	8,344	8,344
Liability reserve pursuant to section 57 (5) BWG	6,690	3,590
Net profit less approved dividend distribution	6,777	2,969
Common Equity Tier 1 capital	**122,015**	**77,795**
- Book value of intangible assets	(5,215)	(3,051)
- Shortfall IRB risk provisions (for non-default portfolio) pursuant to Article 36 (1) lit. d CRR	(3,851)	(5,741)
Common Equity Tier 1 capital after deductions	**112,949**	**69,003**
Supplementary capital	5,629	7,027
- Shortfall IRB risk provisions (for non-defaulted portfolio) pursuant to Article 36 (1) lit. d CRR	(428)	(1,435)
+ Excess IRB risk provisions (for defaulted portfolio) pursuant to Article 62 lit. d CRR	355	983
Supplementary capital (total Tier II)	**5,556**	**6,575**
Eligible own funds	**118,505**	**75,578**

Own funds as of 31 December 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.

Comparison of these own funds pursuant to transitional provisions of CRR with the capital requirements

in EUR thousand	31/12/2017	31/12/2016
Credit risk	626,406	304,117
Operational risk	111,654	66,662
Other items	1,100	1,100
Capital requirement	**739,160**	**371,879**

The return on total assets (ratio of annual surplus after taxes to total assets) amounted to 2.30% (2016: 1.38%) as of the balance sheet date.

As of 31 December 2017, the core capital ratio decreased to 15.3% and the own funds ratio to 16.0%, mainly due to the increase of RWAs related to the purchase of the credit card portfolio from PayLife.

Further information on the balance sheet and income statement

Interest income and fee and commission income are generated exclusively domestically.

Other operating income consists primarily of income from tax refunds and the release of provisions.

in EUR thousand	2017	2016
Release of provisions	125	110
Other income	931	63
Other operating income	**1,056**	**173**

Changes in social capital provisions are included in staff costs whereas changes in other provisions are included in other operating income and other operating expenses, respectively.

Obligations arising from the use of tangible fixed assets not recognized on the balance sheet will amount to EUR 1,601 thousand in 2018 (2017: EUR 1,763 thousand); the expected amount in the five years following the reporting period is EUR 6,448 thousand (2016: EUR 6,688 thousand).

Trustee transactions on the assets side that are eligible for segregation represented a total volume of EUR 871 thousand as of the balance sheet date (2016: EUR 648 thousand).

The Bank is also an obligatory member of the deposit insurance association Einlagensicherung der Banken und Bankiers GmbH. Contributions to the deposit guarantee scheme, which are dependent on the amount of covered deposits adjusted by regulatory key figures, amounted to EUR 2,738 thousand in 2017 (2016: EUR 2,408 thousand). At the end of the contribution period in 2024, the deposit guarantee fund shall have an amount covered equal to 0.8% of all covered deposits.

In 2017, no contributions to the Single Resolution Fund (SRF) were due (2016: EUR 50 thousand). The SRF was originated in the course of the financial crisis to make the banking environment more resilient and to make sure that governments and taxpayers do not have to bail out banking institutions in the future. The contributions to the SRF are based on the balance sheet sum less covered deposits adjusted by specific risk parameters.

With the entry into force of the 2014 Financial Reporting Amendment Act (Rechnungslegungsänderungsgesetz 2014; RÄG 2014), institutions are required to set up loan-loss reserves on performing loans as to be better prepared when a customer defaults. A form of estimating recognizable credit risks is based on the so-called IBNR (incurred but not reported losses). The losses incurred during the financial year from credit risks that are statistically discernible but are not attributable to specific individual cases are recognized as a general provision. The total expenses in conjunction with these general loan-loss reserves amounted to EUR 509 thousand (2016: EUR 2,896 thousand) in 2017.

Taxes

On 1 January 2010, a new tax group was formed pursuant to section 9 KStG; this group is headed by BAWAG Group AG (formerly BAWAG Holding GmbH) and includes easybank AG, among other entities. A tax allocation agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole.

The payable tax is allocated to each group member with a positive tax result on the basis of its proportionate share of the group's tax result. Hence, an internal loss carryforward is taken into account for tax losses allocated to the group parent. If the group parent is required to pay a minimum corporate income tax amount, this group parent is entitled to allocate this minimum corporate income tax to each of the group members in accordance with the portion of this tax incurred by each entity.

A settlement agreement for the intragroup and tax allocation agreement was concluded between the group parent and the individual members of the tax group in the reporting period. This agreement specifies an interim settlement of the tax allocations for the financial years 2010 to 2017, with all tax allocations in these financial years being considered as settled. An exit of easybank AG from the tax group would not cause any back payment of corporation taxes as of 31 December 2017, as the minimum duration of three years according to section 9 (10) KStG has already been fulfilled.

In 2017 a tax compensation agreement effective 1 January 2018 was concluded between the group parent and each tax group member. The tax compensation payments shall be calculated using the stand-alone method. This method simulates that each group member is an independent taxpayer. Group members are obligated to make a tax compensation payment amounting to their taxable profit multiplied with the enacted tax rate. The compensation payment is independent from the taxable result of the group. An internal loss carryforward for tax losses transferred to the tax group parent is sustained and taken into account. As far as the tax group parent only has to pay the minimum corporate tax, no tax compensation payment will be charged. A final settlement for uncredited tax losses must be effected upon dissolution of the tax group or when a member entity leaves the group.

In addition, the new tax group and tax compensation agreement stipulates that the tax group parent abstains from subsequently charging tax compensation payment for periods prior to 1 January 2018. Internal tax loss carryforwards for periods prior to 1 January 2018 will be sustained.

In 2017 *easybank* has not carried out any tax allocation payment to the tax group parent.

The item Other taxes includes the bank stability levy in the amount of EUR 70 thousand. A special payment to the bank stability levy was not payable in 2017 (2016: EUR 358 thousand).

No profit transfer agreements with the parent company were in force in the reporting period.

Pursuant to section 237 item 14 UGB, expenses for the financial auditor in the period are presented in the consolidated financial statements.

Staff, Boards and Officers

Information on staff, boards, and officers: As of 31 December 2017, the Bank had 252 employees (2016: 99 employees); the average number of employees for the year was 133 (2016: 103).

Expenses for remuneration paid to active members of the Managing Board during the financial year 2017 added up to EUR 813 thousand (2016: EUR 421 thousand). Each group company bears a pro rata share of the total compensation of its respective board member. The members of the Supervisory Board were not remunerated for their services in 2017.

Expenses for severance pay and post-employment benefits for the active members of the Managing Board came to EUR 76 thousand (2016: EUR 95 thousand).

Contributions to staff benefit funds for financial year 2017 amounted to EUR 94 thousand (2016: EUR 43 thousand).

Expenses for severance pay and post-employment benefits totaled EUR 419 thousand (2016: EUR 328 thousand).

Long Term Incentive Program

BAWAG Group (including *easybank*) established a long term incentive program (LTIP). For the participants, the bonus will be paid in form of ordinary shares of BAWAG Group to the participants based on the fulfilment of certain conditions. LTIP represents an equity settled share-based transaction which is accounted for in accordance with AFRAC Guideline No 3.

75% of the shares depend on performance targets and will be evaluated in 2021. 25% of the shares are conditioned on working for the group in 2021 respectively 2022. A retention period of 1 year is foreseen.

After fulfilment of the vesting conditions, the LTIP participants will receive the shares in the BAWAG Group without providing any consideration in cash for the acquisition of the shares.

The following shares have been awarded in January 2018:

	Number of shares	Fair value in EUR million	Fair value per share
Granted 18.1.2018	11,594	0.6	47.44
Thereof awarded in part 1 of the LTIP program	8,696	0.4	47.44

Valuation

easybank used the fair value of the equity instruments granted to measure the fair value of the services received from its employees.

Amounts recognized in the financial statements

The services received in an equity-settled share-based payment transaction are recognized as the services are received, with a corresponding increase in equity.

For part 1 of the LTIP program there is no service period attached to the awards, the equity instruments vest and the expense is recognized immediately in the profit or loss-statement in 2017.

For part 2 costs are recognized over the vesting period using a straight-line method following the modified grant-date method starting in 2018.

In the profit or loss-statement for 2017 expenses in the amount of EUR 0.4 million were recognized (2016: EUR 0 million).

Information on financial derivatives and hedging transactions

Macro hedge information

easybank accounts for a macro hedge as defined by the FMA circular "Derivatives used for Interest Rate Risk Management," which came into force on 31 December 2013. The net fair values of the employed derivatives amounted to minus EUR 3,710 thousand (2016: EUR 209 thousand) as of the reporting date. Thereof, the Bank recognized market values of the derivatives on the asset side in the amount of EUR 21 thousand (2016: EUR 1 thousand).

easybank uses interest rate derivatives to set up a macro hedge for the interest rate risks of the banking book as a whole. The actual effectiveness is measured using the dollar offset method. If these interest management derivatives have a negative fair value, they are compared with the interest-rate-related value increases in the underlying transactions. If this comparison yields a negative result, a provision is set up for imminent losses from pending contracts; positive fair values are not taken into account. The negative result as of 31 December 2017 amounted to EUR 63 thousand.

The following table shows the total of the negative and positive fair values of the derivatives used for interest rate hedging purposes in EUR thousand:

in EUR thousand	Pos. FV	Neg. FV	2017	2016	Change
EUR	560	4,270	(3,710)	209	(3,919)
Total	**560**	**4,270**	**(3,710)**	**209**	**(3,919)**

On 31 December 2017, the designated volume of interest rate hedges came to EUR 970 million (2015: EUR 115 million).

in EUR million	2017	2016	Change
Nominal value of designated derivatives in the macro hedge	970	115	855

The macro hedge does not cover non-interest-bearing transactions or the associated hedges. Interest risk management and hedge adjustment are completed on a continuous basis by means of individual offsetting and in any case every month on the basis of the interest rate risk reports to ensure the current and future effectiveness of the interest rate hedges.

Acquisition of credit card issuing business of PayLife

The acquisition of the credit card portfolio relating to the issuing business of PayLife took place on 6 October 2017, following receipt of all regulatory approvals and fulfillment of all contractual requirements. By taking over the credit card portfolio of PayLife, which is organizationally integrated into easybank AG, BAWAG Group significantly strengthened its presence in the issuing and management of credit cards and expanded its market position. The payment was made at the shareholder level by BAWAG Group to SIX Holding GmbH.

Branches

easybank set up a branch in Düsseldorf, Germany. The branch did not have any operational activities in the financial year 2017.

in EUR thousand	31/12/2017	31/12/2016
Name of branch	easybank branch Germany	easybank branch Germany
Business segment	Retail business	Retail business
Country of residence	Germany	Germany
Net interest income	0	0
Operating income	8	0
Number of full-time employees	5	1
Profit/Loss before tax	(1,680)	(173)
Income tax accrued	0	0
Government aid received	0	0

Events after the reporting date

No material events occurred after the reporting date.

Proposal for appropriation of net income

The Managing Board will propose to the Supervisory Board to distribute a dividend in the amount of EUR 90 million thousand to its parent company BAWAG P.S.K. Furthermore, the Managing Board will propose at the Annual General Meeting that the remaining balance of the net profit for the year, which is already included in the own funds, will be retained.

26 February 2018

Sat Shah
Chief Executive Officer

Julian Blazar
Member of the Managing Board

Rainer Henke
Member of the Managing Board

Helmut Kaufmann
Member of the Managing Board

BOARDS AND OFFICERS OF EASYBANK AG

The executive bodies of the Company are the Managing Board, the Supervisory Board, and the Annual General Meeting. The Company is represented by two members of the Managing Board together, or by one member of the Managing Board together with a proxy holder. In 2017 the executive bodies consisted of the following persons:

MANAGING BOARD

Sat SHAH
CEO (since 24/5/2016)

Rainer HENKE
CFO (since 7/4/2015)

Julian BLAZAR
CGO (since 20/8/2016)

Wolfgang HANZL
COO (from 5/8/2016 until 28/2/2017)

Helmut KAUFMANN
CRO (since 5/8/2016)

SUPERVISORY BOARD

Byron HAYNES
Chairman (from 9/1/2010 until 24/4/2017)

Anas ABUZAAKOUK
Chairman (since 24/4/2017)
previously Deputy Chairman of the Supervisory Board since 25/6/2014

David O'LEARY
Deputy Chairman (since 24/4/2017)
previously Member of the Supervisory Board since 20/2/2016

Stefan Barth
Member (since 24/4/2017)

Enver SIRUCIC
Member (since 24/4/2017)

Andy WISE
Member (since 24/4/2017)

Stefan SCHAFFER
Works Council delegate (since 3/1/2009)

Helmut HOLZHEU
Works Council delegate (since 20/8/2016)

Melanie HOTKO
Works Council delegate (since 24/4/2017)

Audit Compliance Committee

Byron HAYNES
Chairman (until 24/4/2017)

Enver SIRUCIC
Chairman (since 24/4/2017)

Anas ABUZAAKOUK
Deputy Chairman

Helmut HOLZHEU
Works Council delegate (since 23/4/2017)

Stefan SCHAFFER
Works Council delegate (until 23/4/2017)

Remuneration Committee

Byron HAYNES
Chairman (until 24/4/2017)

Anas ABUZAAKOUK
Chairman (since 24/4/2017)
previously Deputy Chairman

David O'LEARY
Deputy Chairman (since 24/4/2017)

Helmut HOLZHEU
Works Council delegate (since 23/4/2017)

Stefan SCHAFFER
Works Council delegate (until 23/4/2017)

Nomination Committee

Byron HAYNES
Chairman (until 24/4/2017)

Anas ABUZAAKOUK
Chairman (since 24/4/2017)

Helmut HOLZHEU
Works Council delegate (since 23/4/2017)

Stefan SCHAFFER
Works Council delegate (until 23/4/2017)

Risk and Credit Committee

Byron HAYNES
Chairman (until 24/4/2017)

Stefan Barth
Chairman (since 24/4/2017)

Anas ABUZAAKOUK
Deputy Chairman (until 24/4/2017)

Andy WISE
Deputy Chairman (since 24/4/2017)

Stefan SCHAFFER
Works Council delegate

State Commissioner

Elisabeth TITZ-FRÜHMANN

Deputy State Commissioner

Robert SCHRÖCKER

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the financial statements of **easybank AG, Vienna, Austria** which comprise the statement of financial position as of 31 December 2017, the income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accouting Principles and other legal or regulatory requirements.

Basis for our Audit Opinion

We conducted our audit in accordance with Regulation (EU) 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers

Risk to the Financial Statements

The receivables from customers amount to TEUR 1,482,751 and represent a significant line item in the balance sheet. As at the balance sheet date there are risk provisions (individual and automated loan loss provisions as well as portfolio provisions) for these receivables amounting to TEUR 8,160.

Management describes both the process of credit risk management and the approach to determine risk provisions in the notes in section "Recognition and Measurement Principles".

In respect of credit risk management the bank evaluates whether identifiable risks exist and specific loan loss provisions need to be recognized. In case of defaulted individually significant customers the bank estimates amount and timing of future cashflows paid by debtors or resulting from the realisation of collaterals. This analysis reflects the assessment of the economic situation and development of the individual customer and the valuation of loan collateral.

The calculation of loan loss provisions for defaulted individually not significant customers is carried out automatically. This automatically calculated general loan loss provision is determined either by days past due or a legal case on the basis of general provisioning percentages. The parameters used in the valuation model are based on statistical assumptions.

For all non-defaulted loans and off-balance exposures a rating based portfolio loan loss provision is calculated based on the regulatory Expected Loss Model. The incurred loss is derived by application of the average time until detection of the credit event. Individual, customer-specific parameters as well as statistical assumptions and empirical values are used to determine the amount of the provision.

The calculation of risk provisions for receivables from customers depends significantly on the assumptions and estimates stated above. The inherent uncertainty in respect to those estimates represents a risk of misstatement in the financial statements.

Our Audit Approach

We have analyzed the existing documentation regarding the processes of underwriting, monitoring and the risk provisioning for customer loans and critically assessed, whether these processes are suitable to identify impairment triggers and to adequately reflect the valuation of loans and advances to customers. Moreover, we have evaluated the process workflows as well as significant controls by inspecting the IT-systems and testing the design and implementation of key controls. Furthermore, we have evaluated the effectiveness of key controls through sample testing.

We have examined specific loan loss provisions based on a sample of loans and assessed whether indications of credit defaults exist and whether loan loss provisions have been recognized in an adequate amount. In case of identified impairment triggers we assessed the bank's assumptions with respect to conclusiveness, constituency and consistency. In order to determine the amount and timing of repayments from liquidation of real estate collateral, we have consulted with our real estate experts to analyze appraisal reports or valuation calculations obtained from the bank by applying benchmark tests, market comparisons and external data. In addition, valuation experts have been involved to assess the adequacy of the annual price updates based on the property table of the Austrian Economic Chamber.

With regard to automatically calculated specific loan loss provisions and the portfolio provisions we have analyzed the models used as well as the parameters used. Based on the bank's backtesting of provisions and validations of actual parameters, we have evaluated the adequacy of the assumptions regarding the customers or the customer portfolio. Furthermore, we have examined the quality of the underlying data basis and performed a recalculation of the provision amount.

Furthermore, we evaluated the adequacy of the disclosures on the valuation of loans and advances to customers in the notes.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Management Report

In accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

Opinion

In our opinion, the management report is consistent with the financial statements and has been prepared in accordance with legal requirements.

Statement

Based on our knowledge gained in the course of the audit of the financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the financial statements, the management report and the auditor's report.

Our opinion on the financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 EU Regulation

At the Extraordinary General Meeting dated 19 October 2016, we were elected as auditors. We were appointed by the supervisory board on 19 October 2016. We have been the Company's auditors from the year ended 31 December 2016, without interruption.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Vienna, 26 February 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

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Typesetting: In-house using firesys