HYPO VORARLBERG

ANNUAL REPORT 2017

TOP PERFORMANCE
IS OUR MOTIVATION

KEYFIGURES 2017

Keyfigures of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) – Group reporting per IFRS:

in TEUR		31.12.2017	31.12.2016	Change in TEUR	Change in %
Total assets		13,182,520	13,324,387	-141,867	-1.1
Loans and advances to customers (L&R)	(17)	9,330,521	9,049,998	280,523	3.1
Amounts owed to customers (LAC)	(32)	5,175,661	5,282,097	-106,436	-2.0
Liabilities evidenced by certificates (LAC)	(33)	3,296,773	2,682,267	614,506	22.9
Own funds according to CRR	(67)	1,328,358	1,246,529	81,829	6.6
thereof Tier 1 capital		1,093,275	1,005,715	87,560	8.7
Total capital ratio according to CRR		18.01 %	16.52 %	1.49 %	9.0

in TEUR		2017	2016	Change in TEUR	Change in %
Net interest income after loan loss provisions		169,317	215,545	-46,228	-21.4
Net fee and commission income	(7)	34,833	34,027	806	2.4
Net trading result (not including change in own credit risk)	(9)	9,473	27,998	-18,525	-66.2
Administrative expenses	(11)	-99,952	-97,114	-2,838	2.9
Operating result before change in own credit risk		100,875	151,574	-50,699	-33.4
Earnings before taxes		95,752	117,619	-21,867	-18.6

Keyfigures		2017	2016	Change absolut	Change in %
Cost-Income-Ratio (CIR)		55.34 %	55.27 %	0.08 %	0.1
Return on Equity (ROE)		9.70 %	16.14 %	-6.44 %	-39.9
Employees	(54)	737	725	12	1,7

The shareholders of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) as at 31 December 2017 are:

Shareholders	Total shareholdings	Voting rights
Vorarlberger Landesbank-Holding	76.0308 %	76.0308 %
Austria Beteiligungsgesellschaft mbH	23.9692 %	23.9692 %
- Landesbank Baden-Württemberg	15.9795 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.9897 %	
Share capital	100.0000 %	100.0000 %

Rating *	Standard & Poor's	Moody's
Long-term senior debt	A	A3
Short-term	A-1	P-2
Outook	positive	stable

* As of October 2017, Standard & Poor's (S&P) has awarded Hypo Vorarlberg an "A" rating. In February 2018, Moody's published an update and awarded the Bank a credit rating of "A3". This makes Hypo Vorarlberg one of the best-rated banks in Austria.

ANNUAL REPORT 2017

TOP PERFORMANCE
IS OUR MOTIVATION

COMPANY OVERVIEW
TABLE OF CONTENTS

04

SETTING GOALS. ACHIEVING GOALS.
HYPO VORARLBERG

20

SEEING OBSTACLES AS OPPORTUNITIES.
GROUP MANAGEMENT REPORT


HYPO
THIAM

SETTING GOALS. ACHIEVING GOALS.

HYPO VORARLBERG

WILFRIED AMANN
MEMBER OF THE MANAGING BOARD

Goals help keep us on track on our journey through life. They serve as signposts and a source of strength and motivation. Setting goals in our private and professional lives is the first and most important step in actually achieving them.


JOHANNES HEFEL
MEMBER OF THE MANAGING BOARD
MICHEL HALLER
CHAIRMAN OF THE
MANAGING BOARD

A CLEAR LINE
FOREWORD

2017 was another eventful year for Hypo Vorarlberg. In its new composition the Managing Board succeeded in managing the economic and regulatory challenges at hand. The designated objectives were achieved through combined efforts and the financial year came to a successful close overall.

Dear customers, business partners,
shareholder representatives and employees,

Hypo Vorarlberg steadfastly pursued its path in the midst of persistently negative and low interest rates, excessive regulations and the advancing digitalisation of the banking business. True to our pledge of "The best consulting for those with purpose" we concentrate on our core competencies of providing comprehensive personal consulting and support to private and corporate customers in relation to their finances – yesterday, today and in the future, too.

We are pleased to report on another very positive financial year for the Hypo Vorarlberg Group in this report. With earnings before taxes of EUR 95.8 million we did not quite match the results of the previous year; this was due in part to non-recurring income from the reversal of risk costs in the previous year. However, we can be very satisfied in terms of the development of the operating result. The excellent annual result in 2017 also reflects our long-term business model, healthy credit portfolio and consistent cost management. We stand up well to comparison with Austrian regional banks: we are in the top group with respect to efficiency and profitability and, with total assets of around EUR 13 billion, also rank among the largest universal banks in Austria.

Excellent credit rating
A key event in 2017 was the expiry of the state guarantees. The majority of securities and savings deposits at Hypo Vorarlberg covered by Vorarlberg state guarantees expired at the end of September. Through prudent preparation and good planning we ensured in good time that these instruments were replaced via new refinancing. Nothing changed for customers as a result – quite the opposite, in fact: our ratings even improved further! We still have an excellent credit rating and are now rated in the single A category by both Moody's and Standard & Poor's. This is positive proof that we are a healthy bank even without state guarantees and are providing the very services our customers appreciate us for.

*"Our pledge:
The best consulting
for those
with purpose."*

A strong brand

Hypo Vorarlberg is thus in an excellent position and is a strong, healthy bank. To ensure that this remains so in the future, we have revised and sharpened our brand positioning over the past two years. As a result, we have defined seven core brand values and formulated a clear positioning of our Bank. Our customers have been able to see and experience the new brand profile since the fourth quarter of 2017 and it will also be implemented in our subsidiaries over the course of 2018. Our new positioning, which has also evolved during the course of the brand project, focuses on the quality of our consulting. It is thus our clear goal to expand Hypo Vorarlberg's consulting-intensive core business – investment and financing – further and to make appropriate additions to our range of digital services.

Ambition ensures top performance

The theme for this year's annual report is derived from our seven core brand values, which came to the fore during a comprehensive project to sharpen the brand's profile. "Ambition" – a term that can also be described as diligence, aspiration and industriousness – does not only mean the goals that we as a banking partner wish to achieve together with our customers. We also attach value to long-term, sustainable connections in our collaborations and sponsorships and take great pleasure in supporting our partners' ambitions. The photographs selected for this year's annual report create a connection to this, as the Hypomeeting in Götzis and the Kunsthaus in Bregenz are both top league players in their fields.

Achieving great things together

True to our motto, "Achieving great things together", we would like to thank all of the customers and business partners who gave us their trust and loyalty and implemented great projects with us in 2017. We would like to give special thanks to our employees for their ambition and commitment, which made the excellent results achieved in 2017 possible. Thanks to the support of all these people, Hypo Vorarlberg is in an excellent position and is well equipped to remain a competent and trustworthy partner for our customers in the future.

The members of the Managing Board

Michel Haller
Chairman of the Managing Board

Johannes Hefel
Member of the Managing Board

Wilfried Amann
Member of the Managing Board

ACHIEVING AMBITIOUS GOALS
INTERVIEW WITH MICHEL HALLER

How do you rate the 2017 financial year?
In short, Hypo Vorarlberg is on its planned course. I am particularly pleased as this is the first financial year with the Managing Board in its new composition. We can look back on an eventful and at the same time financially successful year in which we achieved a very good overall result. Overall, the Group achieved earnings before taxes of EUR 95.8 million in 2017. This figure demonstrates the financial strength of Hypo Vorarlberg, which we have proven once more despite low and negative interest rates, the expiry of the state guarantees and ever more new regulatory requirements. The fact that we managed to have a successful year despite all the challenges is due above all to stable corporate and private customer business as well as our consistent cost management.

Keyword state guarantees: what impact will their expiry have?
The majority of securities and deposits at Hypo Vorarlberg covered by Vorarlberg state guarantees expired at the end of September 2017. This topic required our attention both last year and for a long time before that. Through prudent preparation and good planning we ensured in good time that the maturing instruments were replaced via new refinancing. Nothing changed for the customer as a result – quite the opposite, in fact: this even improved our ratings further! We have an excellent credit rating and are rated in the single A category by both Moody's and Standard & Poor's. This is positive proof that we are a healthy bank even without state guarantees and are providing the very services our customers appreciate us for.

How have risk costs developed?
We pay attention to the high quality of our credit portfolio and ensure that the risk structure is appropriate for our size and business model. This is firstly shown through the further reduction in the risk-weighted assets (RWAs), although total lending to customers increased compared to the previous year. Non-performing loans (NPLs) have also developed well. Only 1.84 % of our total loans were attributable to non-performing loans in 2017, a noticeable decline compared to 2016 when the NPL rate was still 1.99 % . Despite cautious valuation, our risk costs remain at a low level. We reported income under this balance sheet item since, as in the previous year, more valuation allowances were reversed than new valuation allowances recognised. This shows a very positive trend in risk in the core business and that the customers in our market areas are in an excellent position.

And how about the Bank's own funds?
The further reduction in risk-weighted assets has had a positive impact on our own capital requirements and we have strengthened our capitalisation through both the good results in 2017 and the issue of a subordinated bond. At the end of 2017, Hypo Vorarlberg's total attributable capital resources amounted to EUR 1.3 billion. With a solvency ratio of 18.01% (2016: 16.52 %) and a core capital ratio (T1) of 14.82 % (2016: 13.33 %) we have significantly improved compared to last year and already fulfil the regulatory requirements for 2019. With our liquidity figures, we are over the legal requirements in both the short and long-term. We also intend to increase Hypo Vorarlberg's capitalisation further in the future in line with our plans for sustainable growth and the expectation of new regulatory requirements.

How is a bank such as Hypo Vorarlberg handling the new regulations?
There is no way around MiFID II, IFRS 9, PSD II, Basel or GDPR… to name but a few. We are required to comply with them by law. For this reason, large international banks and smaller regional banks alike must do everything possible to ensure they are implemented smoothly. In the year under review we invested a great deal of time and money in implementing the new regulations and this significant time, effort and cost also left its mark on the result. In the last ten years we have increased Hypo Vorarlberg's headcount by around 70 employees, approximately two thirds of whom have bolstered back office operations and only one third sales. This shows how the focal points have shifted. We would far prefer to carry out our real task of financing businesses and private customers in our core markets.

Your outlook for 2018?
With ambitious and well-trained employees and with customers who trust us, we have the best conditions for another successful year in which we intend to achieve great things together.

Which core brand value applies to you most?
Ideally, I would like to combine two core brand values and choose "attentive ambition". This can best be expressed as follows: I strive for ambitious, achievable goals while having regard to the resources available and my environment.

Michel Haller (46) has been a member of the Managing Board of Hypo Vorarlberg since 2012; he took over the position of Chairman of the Managing Board effective 1 January 2017. His remit includes the Bank's Risk Management, Legal, Compliance, Human Resources, Communication and Back Office Fund/Securities/Derivatives departments as well as Risk Management at the St. Gallen branch and Leasing in Bolzano, Italy. Mr Haller, who is originally from the Bregenz Forest, previously worked at Hypo Vorarlberg from 1995 to 2002, first in the Corporate Customer department and then from 1998 in Treasury, where he headed the Asset Management Group. In parallel to this he was head of Hypo-Kapitalanlage Ges.m.b.H for two years before moving to join the Board of Sparkasse Bregenz. Michel Haller studied Business Administration and Law at the Leopold-Franzens-University in Innsbruck where he received his Master's degree in 1994.

"Instead of implementing new regulations we would rather carry out our real task: financing companies and private customers."

OUR ASPIRATION IS OUR PLEDGE
INTERVIEW WITH JOHANNES HEFEL

What promise does the new "Hypo Vorarlberg" brand hold?
"The best consulting for those with purpose" – that is our aspiration and at the same time our pledge to our customers. We defined this positioning during the course of a project to sharpen the brand's profile. It did not come about by chance: this positioning has grown over many years based on very good services and our employees' great wealth of experience. Fulfilling customers' needs – that is acquiring their own property or conserving the value of their assets – is a complex challenge that can only be met through expert consulting. The typical customer is also conservative in this regard – they want to know they have someone by their side who knows from experience what the best possible options are. Our focus, therefore, is on those customers who value the best personal consulting, intelligently combined with digital possibilities. That is what differentiates us and the branding process was a key part of this as well.

What were the greatest challenges in the Private Customer segment in 2017?
Private Customer business came under heavy pressure again. Reasons for this were the negative interest rates, ongoing digitalisation, continuing strong competition among banks in the deposit and financing business, the costs due to the deposit protection fund and the single resolution fund and, not least, excessive regulations. The implementation of MiFID II, the new directive for transactions in financial instruments, cost a great deal of time and a great deal of money. It is very doubtful whether this is matched by a corresponding benefit to the customer. Despite these burdensome conditions we generated a pleasing operating result in the Private Customer segment. We are currently reflecting on how we can sustainably structure our branches so as to remain successful.

How did the Real Estate segment perform?
We make a key contribution to the creation of private housing in Austria each year: in 2017 we financed a total of around 1,400 flats and houses in our market areas with a volume of around EUR 200 million. There continues to be strong demand for home ownership despite further increases in real estate prices. We believe that investing in one's own property is to be supported despite the high prices, although people are gradually reaching the limits of what they can afford. For this reason, we are offering customers longer term interest rate hedges so that they can reckon on a low interest rate for many years.

How has Private Banking/Wealth Management developed?
Both financing and investment performed positively in the last year. We succeeded in increasing the investment volume (customer funds) significantly: we received a total of EUR 100 million in new funds for investment from traditional private customers. This also demonstrates that our excellent consulting and varied product range in this area are oriented towards customers' needs and offer contemporary solutions which both inspire customers' confidence and are regularly endorsed by anonymous testers. Both the Elite Report (Munich) and the Fuchsbriefe (Berlin) awarded us very good ratings again for 2018. We were the only Austrian bank to be placed in the top group in both tests. These accolades are an endorsement of our chosen path of remaining a bank that offers individual and high-quality advice while at the same time creating innovative, contemporary products and solutions.

And how about sustainability?
It is becoming increasingly important for many customers (local governments, pension funds and also private individuals) that their partners operate in a sustainable manner. We are intensively engaged in this, due not only to economic reasons but also to our values: one of our seven core brand values is thus "attentiveness". Accordingly, we wish to operate our businesses sustainably and manage them prudently. In 2017 we set standards in this area by becoming the first Austrian bank to issue a green bond. We have also devised clear criteria for our future financing and investment business and prepared a comprehensive sustainability report. In addition, our Asset Management division took a first major step in the direction of sustainable asset management by modifying the Hypo Weltportfolio Aktien umbrella fund, the largest global equity umbrella fund in Austria. As a result the fund received an A rating and may bear the SRI transparency seal following a screening by the Center for Social and Sustainable Products AG (CSSP) – a further step in the direction of sustainability.

Which is the most important core brand value for you?
I consider all seven core brand values to be important. Only the individual values combined make up the DNA of Hypo Vorarlberg. As in the women's heptathlon in athletics, it is vital to deliver top performance in all "disciplines".

Johannes Hefel (60) has been a member of the Managing Board of Hypo Vorarlberg since 1997. His remit includes the areas of Private Customer Sales, Private Banking/Wealth Management, Asset Management, Audit, Logistics and Marketing. Prior to his role on the Managing Board of Hypo Vorarlberg, Mr Hefel gathered many years' experience as a financial analyst and an asset manager in Liechtenstein and Frankfurt am Main. Mr Hefel, who originates from Schwarzach, moved to MZSG Management St. Gallen in 1990 as a management consultant and management trainer. He worked independently in this field from 1993 to 1997 before being appointed to the Managing Board of the Bank. He completed his Business Administration and Law degree at the Leopold-Franzens-University in Innsbruck in 1982, receiving his doctoral degree in economic and social sciences three years later.

“What makes us stand out? Our customers receive the best possible advice combined with suitable products from our extensive range.”

DIGITAL FUTURE
INTERVIEW WITH WILFRIED AMANN

How was your first year as a member of the Hypo Vorarlberg Managing Board?
I have settled into my role very well and am delighted that the financial year was so successful. This confirms that Hypo Vorarlberg is a solidly positioned, healthy bank. The risk-conscious business model continued to be an important foundation for good financial performance in 2017 – viewed both overall and with respect to my areas of responsibility. As the Managing Board member responsible for the Corporate Customer business I can say that we continue to take our role as an entrepreneurial bank very seriously and inspire our customers' confidence with specific expertise in the areas of financing and subsidies.

How did the Corporate Customer segment perform in 2017?
Overall, the Corporate Customer business at Hypo Vorarlberg performed exceptionally well in the 2017 financial year. This segment achieved total earnings before taxes of TEUR 83,924. The Austrian economy grew again, which was above all evidenced last year by increased willingness to invest on the part of companies in our core markets. We were thus able to grant a total of around EUR 700 million in new financing to Austrian companies in 2017. Large investments were made in the real estate sector, in particular, but also in the areas of industry and commerce.

How about the subsidiaries?
Our subsidiaries add banking-related services to Hypo Vorarlberg's product range. All the companies performed positively in the financial year and made an important contribution to earnings. The real estate and leasing company in Vorarlberg and Vienna, the insurance brokerage in Vorarlberg and the leasing company based in South Tyrol are also included in the Group. The integration of our real estate and leasing subsidiaries into our branch office in Vienna was both right and necessary as the physical proximity between advisors at the Bank and real estate professionals makes it possible to offer additional services to our customers. Generally speaking, customer proximity and excellent consulting form the basis of every business relationship at Hypo Vorarlberg – whether in private or corporate banking, in person or digitally.

What should we understand by "digital" Hypo Vorarlberg?
We banks are faced with increasing competition from FinTechs, while new technologies such as blockchain are also gaining ground. We have been dealing with this segment for a long time, although there are still many uncertainties and a lack of legal frameworks. We view digitalisation as an opportunity and invested around EUR 800,000 in this area last year. Furthermore, we set up our own "Digitalisation" department to deal with new technological opportunities and trends and their impact on banking services and products. To stay on the ball we are represented in international networks such as the Business Engineering Institute St. Gallen and take part in hackathons. The introduction in spring 2017 of an innovative online tool for companies' payment transactions was a further important step in this direction.

How can corporate customers benefit from this?
In recent years our experience has shown us that many companies would like to have uncomplicated banking software for payment transactions. They are looking for a solution that does not require installation, is location-independent, fast, secure and international for all accounts. The greatest benefit of the new Hypo Office Banking (HOB) application is therefore its multibank capacity, which means that companies can use it to manage all their accounts – both Austrian and international – online in one single system. This feature is particularly valued by the export-oriented businesses in our market areas. Through this we have assumed a pioneering role in the optimisation of payment transactions in Austria.

Hypo Vorarlberg was also a pioneer in terms of its green bond in 2017…
Yes, we were the first Austrian bank to venture into this segment. For us, the green bond was an ideal opportunity to combine sustainable aspects of the business with targeted investor demand. Private investors but particularly also institutional investors have now developed a far stronger awareness of where they are investing their money and what they are investing it in. As issuer of this green bond we can also prove that Hypo Vorarlberg supports positive ecological development.

Which core brand value is most important to you?
I choose two core brand values: ambition and reliability. For me, "ambitious" wonderfully sums up how being prepared to achieve something extraordinary also means having to put a great deal of effort into it. It is an ongoing process and a really ambitious employee will never lean back complacently but always want even more for the customer. I think "reliability" very clearly stands for the confidence and trustworthiness embodied by Hypo Vorarlberg. And, for me, both things together create our pledge – that is "The best consulting for those with purpose".

Wilfried Amann (55) started his professional career at Raiffeisenbank Walgau – Großwalsertal, while at the same time studying business administration and economics. After serving in various positions in the company, he was appointed Managing Director. Later, he joined the Liechtenstein University of Applied Science as assistant professor and supervised various research projects. In 2010, he returned to banking and accepted a position as Head of Private Banking and Corporate Banking for Raiffeisenbank im Reintal. Since 1 January 2017, Wilfried Amann has been a member of the Managing Board of Hypo Vorarlberg and is responsible for the areas of Corporate Customer Sales, Treasury, Strategic Bank Management, Accounting and Subsidiaries.

"We view digitalisation as an opportunity and are investing heavily in this area. That is the only way we can remain a strong partner for our customers."

ORGANISATIONAL CHART
OF HYPO VORARLBERG

MANAGING BOARD

DIV RISK MANAGEMENT
MICHEL HALLER, CEO

Credit Management – Corporate Customers
Stefan Germann
- Credit Management – Corporate Customers
- Credit Management Banks & Leasing
- Credit Management St. Gallen
- Financial Aids Department
- Balance Sheet Analysis

Credit Management – Private Customers
Martin Heinzle
- Credit Management – Private Customers
- Certification / Credit Service
- Housing Construction Aids

Group Risk Controlling
Markus Seeger

Law
Dr. Klaus Diem
- Central Loan Monitoring Corporate Customers
- Central Loan Monitoring Private Customers
- Contract Law

Human Resources
Egon Helbok

Communication
Sabine Nigsch

Compliance
Reinhard Kaindl

Mid- und Backoffice Fonds, Securities and Derivatives
Johannes Tschanhenz

IT/Organisation
Johann Berchtold
- Information Technology
- Organisation
- Payment Transactions

St. Gallen Branch Office
Thomas Reich

Hypo Vorarlberg, Italy
Michael Meyer
- Hypo Leasing (Backoffice – Risk Management)

Alexander Ploner
- Real estate

DIV CORPORATE CUSTOMERS
WILFRIED AMANN

Corporate Customers Sales
Karl-Heinz Rossmann
- Branch Offices Corporate Customers
- International Services
- Syndication / Structured Financing

Corporate Customers Vienna
Roswitha Klein

Treasury
Florian Gorbach
- Asset Liability Management
- Money, Foreign Exchange and Interest Derivatives Trading
- Securities Customer Trading
- Debt Capital Markets

Strategic Bank Management
David Blum

Accounting
Nora Frischherz
- Controlling
- Bookkeeping, Supervisory Reporting
- Accounting
- Data and Document Management

Participation Administration
Emmerich Schneider

St. Gallen Branch Office
Dieter Wildauer, RM

Hypo Vorarlberg Leasing, Italy
Christian Fischnaller
- Sales

Hypo Immobilien & Leasing GmbH
Wolfgang Bösch
Peter Scholz

Hypo Versicherungsmakler GmbH
Harald Dür
Christoph Brunner

Digitization
Tanja Libiseller

DIV PRIVATE CUSTOMERS/PRIVATE BANKING
JOHANNES HEFEL

Private Customers Sales/Private Banking
Markus Felder
- Branch Offices Private Customers
- Private Banking
- Product Management
- Customer Service Center

Private Customers Vienna/ Mobile Sales Unit
Roswitha Klein

Wealth Management
Beatrice Schobesberger
- Vienna
- Bregenz

Asset Management
Roland Rupprechter
- Asset Management
- Fonds Management
- Financial Analysis/Research
- Active Advisory

Corporate and Internal Audit
German Kohler

Logistics
Wilhelm Oberhauser
- Facility and Materials Administration
- Sustainability

Marketing
Angelika Rimmele
- Marketingmanagement
- Youth marketing
- Sponsoring and events
- Creation

Compliance
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

Vienna Branch Office
Roswitha Klein, RM
Beatrice Schobesberger, HPB / HWM
Lothar Mayer, BM
Hans-Jürgen Spitzer, HCC
Katharina Jantschgi, SPC

Graz Branch Office
Horst Lang, RM
Gerhard Vollmann, HPC PB

Wels Branch Office
Friedrich Hörtenhuber, RM
Iris Häuserer, HPC PB

Bludenz Branch Office
Christian Vonach, BOH
Walter Hartmann, BOH PC

Feldkirch Branch Office
Martin Schieder, BM

Götzis Branch Office
Franz Altstätter, BM

Hohenems Branch Office
Andreas Fend, BOH

Lustenau Branch Office
Graham Fitz, BOH
Helgar Helbok, BM

Höchst Branch Office
Erich Fitz, BM

Bregenz Private Customers Branch Office
Christian Brun, BOH

Service and Private Customers
Christian Brun

Private Banking
Stephan Bohle

Bregenz Corporate Customers Branch Office
(inkl. Bregenzerwald)
Stephan Sausgruber, BOH

Key Account Management
Stephan Sausgruber

Corporate Customers Branch Office Germany
Markus Schmid

Bregenz Wealth Management
Stefan Schmitt, HPB

Hard Branch Office
Manfred Wolff, BM

Lauterach Branch Office
Karl-Heinz Ritter, BM

Dornbirn Branch Office
Richard Karlinger, BOH
Egon Gunz, BOH PC

Messepark
Stephan Spies, BM

LKH-Feldkirch Branch Office
Stefan Kreiner, BM

Rankweil Branch Office
Günther Abbrederis, BM

Egg Branch Office
Stefan Ritter, BM

Riezlern Branch Office
Artur Klauser, BOH
Josef Wirth, SPC

Schruns Branch Office
Hannes Bodenlenz, BM

Lech Branch Office
Reinhard Zangerl, BOH + BM

Div	Division
RM	Regional Manager
BOH	Branch Office Head
BM	Branch Manager Private Customers
HCC	Head of Corporate Customers
HPB	Head of Private Banking
HWM	Head of Wealth Management
SPC	Head of Service and Private Customers
BOH PC	Branch Office Head Private Customer
HPC PB	Head of Privat Customers and Private Banking

Status: April 2018

EXECUTIVE BOARDS
OF HYPO VORARLBERG

MANAGING BOARD

Michel Haller
Chairman of the Managing Board, Tettnang

Johannes Hefel
Member of the Managing Board, Schwarzach

Wilfried Amann
Member of the Managing Board, Bludesch

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn

Astrid Bischof
Entrepreneur, Göfis

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Dornbirn (since 07.03.2017)

Michael Horn
Deputy Chairman of the Managing Board of Landesbank
Baden-Württemberg (LBBW), Weingarten

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis
Member of the Managing Board of Landeskreditbank
Baden-Württemberg – Förderbank (L-Bank), Ettlingen

Veronika Moosbrugger
Chairwoman of the Works Council
Works Council delegate

Andreas Hinterauer
Works Council delegate (from 01.03.2017)

Elmar Köck
Works Council delegate

Gerhard Köhle
Works Council delegate

Peter Niksic
Works Council delegate

Bernhard Köb
Works Council delegate (until 28.02.2017)

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

Audit and risk committee

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Astrid Bischof
Karl Fenkart
Veronika Moosbrugger
Elmar Köck

Loan committee

Jodok Simma, Chairman
Alfred Geismayr, Deputy Chairman
Albert Büchele
Karl Fenkart
Michael Horn
Veronika Moosbrugger
Elmar Köck

Remuneration and nomination committee

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Karl Fenkart
Nicolas Stieger
Ulrich Theileis
Veronika Moosbrugger
Elmar Köck

STATE COMMISSIONER

Gabriele Petschinger

Matthias Ofner
Deputy (seit 1.3.2017)

ESCROW AGENTS

Heinz Bildstein
President of the State Court, Feldkirch

Helmut Schamp
Deputy, Federal Ministry of Finance, Vienna

Status: April 2018

ADVISORY BOARD
OF HYPO VORARLBERG

ADVISORY BOARD

Markus Wallner
Chairman, Provincial Governor, Frastanz

Hans Dietmar Sauer
Deputy Chairman, Chairman of the Managing Board of Landesbank Baden-Württemberg (retired), Ravensburg

Alexander Abbrederis
Chairman of Junge Wirtschaft Vorarlberg
Managing Director, pratopac GmbH, Rankweil

Daniel Allgäuer
Chairman of FPÖ political party, Feldkirch

Gerhart Bachmann
President of Vorarlberg Dental Chamber, Feldkirch

Hubert Bertsch
Managing Director, Bertsch Holding GmbH, Bludenz

Ernst Bitsche
Entrepreneur, Thüringen

Herbert Blum
Managing Director, Julius Blum GmbH, Höchst

Christian Brand
Chairman of the Managing Board of Landeskreditbank Baden-Württemberg – Förderbank (retired), Ettlingen

Birgitt Breinbauer
President of Bar Association Vorarlberg
Lawyer, Dornbirn

Manfred Brunner
Chairman of Vorarlberger Gebietskrankenkasse, Höchst

Guntram Drexel
Supervisory Board of Spar Österreichische Warenhandels AG, Lustenau

Kurt Fischer
Mayor, Lustenau

Stefan Fitz-Rankl
Managing Director, Fachhochschule Vorarlberg, Lustenau

Gerald Fleisch
Managing Director, Vorarlberger Krankenhaus-Betriebsges.m.b.H., Dornbirn

Jutta Frick
Managing Director, Bad Reuthe Frick GmbH, Reuthe

Roland Frühstück
Chairman of ÖVP political party, Bregenz

Christof Germann
Member of the Managing Board, Illwerke VKW, Lochau

Adi Gross
Chairman of 'Die Grünen' political party, Lauterach

Heinz Hämmerle
Entrepreneur, Lustenau

Andreas Haid
Mayor, Riezlern

Robert Haller
Hotelier, Mittelberg

Dietmar Hefel
Managing Director, Hefel Textil GmbH, Dornbirn

Joachim Heinzl
Managing Director, Wirtschafts-Standort Vorarlberg GmbH (WISTO), Bludenz

Hans Hofstetter
Lawyer, Schoch, Auer & Partner Rechtsanwälte, St. Gallen

Josef Huber
Entrepreneur, Huber Invest GmbH, Klaus

Robert Janschek
Managing Director, Walter Bösch GmbH & Co KG, Lustenau

Michael Jonas
President of Medical Association Vorarlberg, Dornbirn

Harald Köhlmeier
Mayor, Hard

Urs-Peter Koller
Entrepreneur, Wittenbach

Oswin Längle
Managing Director, Längle Glas GmbH, Dornbirn

Markus Linhart
Mayor, Bregenz

Hans-Peter Lorenz
Managing Director, VOGEWOSI (Vlbg. gemeinnützige Wohnungsbau- und Siedlungsges. mbH), Dornbirn

Hans-Peter Metzler
President of Chamber of Commerce, Hittisau

Josef Moosbrugger
President of Chamber of Agriculture, Bregenz

Martin Ohneberg
President of Vorarlberg Industrial Association
Managing Director, HENN GmbH & Co KG, Dornbirn

Johannes Rauch
Member of Vorarlberg government,
'Die Grünen' political party, Rankweil

Jürgen Reiner
President of Chamber of chartered public accountants and
tax consultants, Lochau

Michael Ritsch
Chairman of SPÖ political party, Bregenz

Gerold Schneider
Hotelier, Lech

Thorsten Schönenberger
Member of the Managing Board, Landesbank Baden-Württemberg,
Stuttgart

Thomas Sohm
Managing Director, Etiketten Carini GmbH, Lustenau

Harald Sonderegger
President of the Vorarlberg government, Schlins

Karl Stadler
Delegate of Administrative Board of POLYGENA-Group, Altstätten

Eduard Tschofen
Chartered Accountant, Feldkirch

Anselm van der Linde
Abbot of Wettingen-Mehrerau, Bregenz

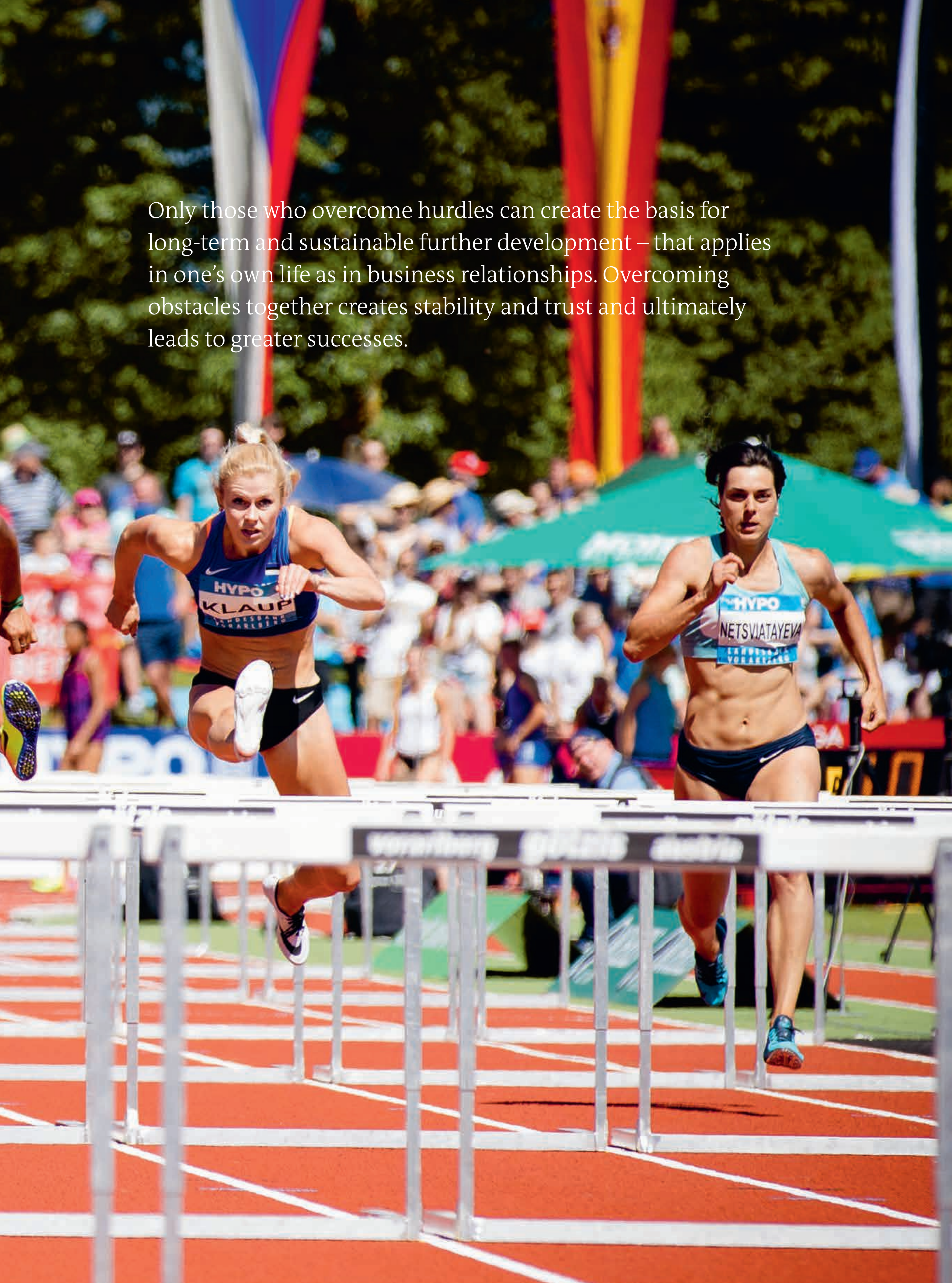
Stefanie Walser
Managing Director, Walser Fashion & Lifestyle GmbH, Dornbirn

Status: April 2018

SEEING OBSTACLES AS OPPORTUNITIES.

GROUP MANAGEMENT REPORT

Only those who overcome hurdles can create the basis for long-term and sustainable further development – that applies in one's own life as in business relationships. Overcoming obstacles together creates stability and trust and ultimately leads to greater successes.



MACROECONOMIC
CONDITIONS

Global economy and euro zone

At the beginning of 2017, surveys of purchasing managers in industrialised countries suggested an optimistic outlook for the economy the like of which has not been seen for a long time. The Open Market Committee of the US Federal Reserve (Fed) also anticipated a continued upturn and paved the way for two interest rate increases in the first half of 2017. As of April, the European Central Bank (ECB) reduced its monthly bond purchase volume as announced. The European Union moved closer together again in political terms following Emmanuel Macron's election victory in France. Euroscepticism decreased and financial markets recovered as a result. The global purchasing manager indices in the manufacturing sector also presented a robust picture of the world economy.

US economic performance in the third quarter of 2017 came as a surprise given the havoc wrought by the hurricane season. Good sentiment continued in the European economic area. Economic momentum increased slightly, positively impacting the labour market. Inflation picked up as well, but still remained below the ECB's target of almost 2%. Despite this and due in part to the strength of the euro, ECB president Draghi remained silent with regard to an exit from the expansionary monetary policy at the meeting of the international central banks in Jackson Hole. As a result, yields on bond markets dropped sharply. This trend was in sharp contrast to the pronounced economic optimism as, for example, the ifo business climate index reached a new all-time high.

The hesitation of the ECB also unsettled stock market investors for many weeks. Lower liquidity also had a negative impact in the summer in any case, as did increased investor caution resulting from diplomatic dissonance between North Korea and the US. Stock markets only recovered in September. The conflict in Catalonia caused uncertainty on the financial markets in the final quarter. Market participants also awaited the ECB's monetary schedule announced for the October meeting with anticipation. "Lower for longer" was the motto, meaning that the bond-buying programme was extended until September 2018 but reduced in scope to EUR 30 billion a month as of January 2018.

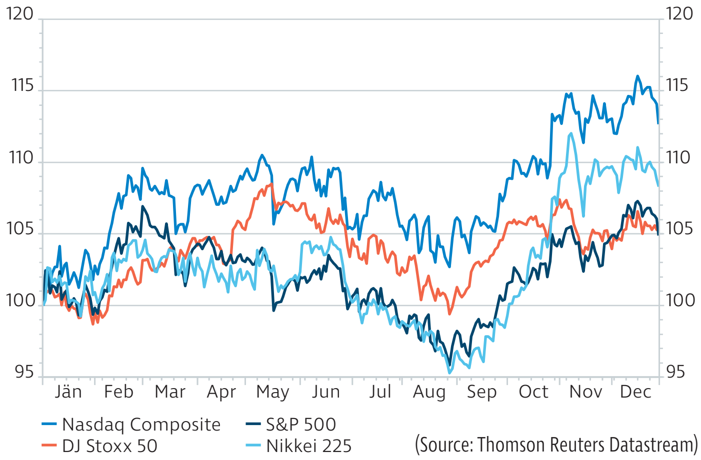
The US Federal Reserve cautiously started reducing its total assets in the final quarter as well. However, the current balance sheet total is only expected to halve in around five years' time. The matter of succession at the top of the Fed also needed to be resolved. Jerome Powell, who has been a member of the Board of Governors since 2012, will succeed Janet Yellen. Uncertainty continued to spread in the run-up to the December meeting as some market participants doubted the anticipated rise in the Federal funds rate would materialise due to the flattening of the inflation rate in the US. However, the increase of 25 basis points went ahead as planned. The economic upturn in the euro area had also broadened appreciably. At 2.2%, growth in all EMU countries in 2017 should have been the strongest for ten years. Nevertheless, the ECB decided against changing its rate before the end of the year.

Stock and bond markets

Stock markets continued their upward trend over the course of 2017. Many benchmark indices of international stock exchanges posted new highs – even new all-time highs in some cases. This was significant because the stock markets find themselves in an extremely prolonged cycle, with the level of the Frankfurt DAX, for example, actually more than tripling since March 2009. Investors generated very good returns investing in the domestic stock market over the last year, in emerging countries as well as in European small and mid caps.

The original inflation expectations were dampened by the decline in commodity prices. This made it difficult for European Central Bank executives to turn away from their extremely expansionary monetary policy. As a result, money market and capital market rates remained at a low level for a long time. Yields did not pick up again significantly until the end of the first half of 2017. This was due to relatively good economic news – especially in Europe – and the expectation that the European Central Bank could actually end its ultra-loose monetary policy in the medium term. After a significant downward trend yields picked up slightly again at the end of the year. Bank and corporate bonds also suffered as a result of the yield increase. However, the improved economic prospects in Europe led to decreased risk premiums which more than offset the negative effects of the slight yield increase.

Global stock market development in 2017 (in EUR)



(Source: Thomson Reuters Datastream)

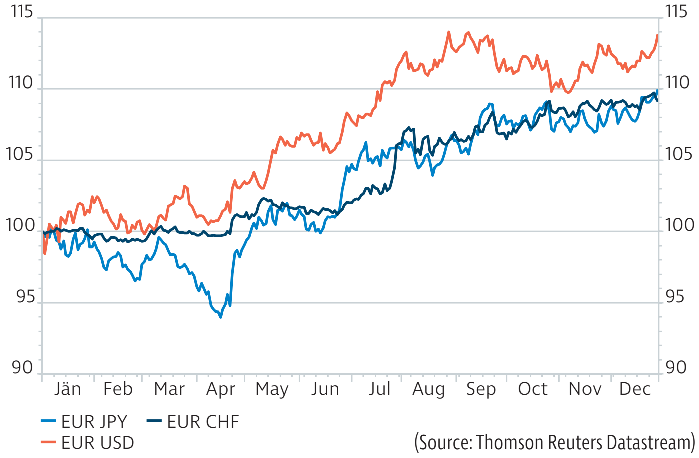
Commodities and currencies

Gold posted positive performance on a USD basis in the year under review as this precious metal was rediscovered as a safe haven in light of increasing geopolitical risks. The accented weakness of the dollar was a further factor in the notable increase in the gold price. However, from the end of the third quarter of 2017 to mid-December, together with burgeoning fantasy on interest rate hikes in the US, this segment saw profit taking. It subsequently closed the year considerably higher at USD 1,306.22.

By contrast, crude oil prices fell due to excess supply in the first half of 2017 but were able to sustain a marked recovery owing to the evident economic upswing. In December, North Sea Brent achieved its highest price since June 2015. The industrial metals also benefited significantly.

The weakening US dollar had a dampening effect on the performance of commodities for euro investors. Over the course of the year the single currency saw double-digit appreciation against the US dollar, appreciating roughly 7% against the Japanese yen and around 8% against the Swiss franc.

Currencies against the euro in 2017



(Source: Thomson Reuters Datastream)

Gold price development in 2017 (in USD)

(Source: Thomson Reuters Datastream)

Austria

Austria's economy recorded broad-based growth again in 2017. According to preliminary figures from the Austrian Economic Chamber (WKO), Austria experienced economic growth of 3.1% in 2017 (2016: 1.5%), thus exceeding the euro zone average once again. According to the WKO, economic performance in both the EU and the euro zone rose by 2.4% in the year under review. This represented a ten-year high in both cases.

Continued strong investment and consumer demand was not the only factor contributing to GDP growth in Austria, with export-based industrial activity also accelerating towards the end of the year due to very dynamic global trade. Economic momentum based on private consumption remained strong, with private consumption spending (including private non-profit organisations) climbing 0.4% in the fourth quarter of 2017 according to WKO figures. Public consumption spending experienced somewhat higher growth at 0.6%. Investment activity also remained strong, with increased demand for investments in equipment and construction observed among Austrian companies in 2017.

The inflation rate in Austria (consumer price index calculated on a national basis) averaged 2.1% in 2017, which represented a substantial rise compared to 0.9% in the previous year. Prices thus rose considerably more sharply than in other countries in the euro area. According to Statistik Austria, prices were boosted most powerfully by the housing sector again, although the cost of fuels and heating oil also rose. Prices were dampened by lower electricity prices, among other factors.

The rise in unemployment that had begun in 2012 abated slightly in 2016 as employment expanded substantially. According to the Austrian Public Employment Service (AMS), the unemployment rate based on the national definition continued to fall in 2017, reaching 8.5% (2016: 9.1%). Austria recorded a decline both among the long-term unemployed and older job applicants over the age of 50.

According to Statistik Austria, the debt ratio in Austria (= ratio of public debt to GDP) decreased in 2017. While the level of public debt still amounted to EUR 295.2 billion or 83.6% of GDP at the end of 2016, the debt ratio declined again somewhat in 2017, with the level of debt reaching EUR 293.6 billion or 80.4% of GDP at the end of the third quarter of 2017. Since 2014, the level of debt has also included the liabilities of the wind-down company HETA Asset Resolution AG (formerly Hypo Alpe Adria Bank International AG).

Vorarlberg
Industry still remains the driving force behind Vorarlberg's economic success. The results of a recent economic survey identify a slight positive trend in Vorarlberg industry. However, the situation with skilled employees remains relatively strained despite increased training for junior employees and is exacerbated by impending retirements.

In the fourth quarter of 2017, the business climate index of Vorarlberg industry – an average of expectations for the current business situation and that in six months' time – improved slightly compared to the previous quarter. It rose from 36.3% to 39.7% , thus significantly exceeding the previous year's figure. The business climate index therefore recorded the third best value of the last five years.

75% of the companies surveyed rate their current business situation as good; only 6% speak of a poor situation. This stable situation is based on Vorarlberg industry's strong export activities: orders from outside Austria were rated considerably more positively in the fourth quarter of 2017 than in the previous quarter, with 80% assessing the order situation as good. 84% also rate the current order backlog as good.

Vorarlberg companies' outlook for the next six months is positive. 11% assess the business situation in six months' time as even more favourable than the current one, while 89% expect the situation to remain at least the same. Furthermore, 40% of respondents intend to recruit additional employees in the next three months. The current earnings situation is assessed as satisfactory. Over 50% speak of a good earnings situation, while 40% categorise earnings as average. The outlook for the next six months is relatively unchanged. 86% of companies think that the earnings situation will remain the same.

43 companies with a total of around 24,000 employees took part in the survey, which is carried out quarterly by the Vorarlberg Industrial Association and the industrial division of the Vorarlberg Chamber of Commerce (WKV). The survey allows for three possible responses: good, average and poor. The (employment-weighted) percentage shares of these response categories are calculated and the cyclical "difference" between the percentage shares of positive and negative responses established accordingly, disregarding the neutral responses.

THE AUSTRIAN BANKING SECTOR
IN 2017

At the end of the third quarter of 2017, Austrian banks reported consolidated total assets of EUR 950,841 million. This represents an increase of EUR 4,594 million compared to the fourth quarter of 2016 (total assets in 2016: EUR 946,248 million).

The earnings situation of the Austrian banking sector has recovered continuously since 2015. The consolidated earnings of the banks (after taxes and minority interests) were somewhat stronger again in 2017 compared to the previous year, standing at EUR 5,144 million as of 30 September 2017 (30 September 2016: EUR 4,516 million). This development is partly attributable to a rise in net fee and commission income and a reduction in write-downs. The drop in credit risk provisions also had a positive effect on the result.

Overall, the profitability of the banks is suffering as a result of negative interest rates, flat yield curves and structural challenges. Net interest income – a significant component of earnings – remained under pressure in 2017. According to the Austrian National Bank (OeNB), the net interest income of Austrian-based banks amounted to EUR 10,938 million at the end of the third quarter of 2017 (third quarter of 2016: EUR 10,979 million).

The measures taken in the area of foreign currency loans continue to have a positive effect. This is highlighted by the declining volume of foreign currency loans to private households and non-financial enterprises since 2008 (- 65% as of the second quarter of 2017). Banks' outstanding loans to private households in foreign currencies (primarily in Swiss francs) totalled EUR 17,107 million in the third quarter of 2017 (third quarter of 2016: EUR 21,586 million). With respect to existing risks from foreign currency loans and loans with repayment vehicles, the OeNB recommends that banks evaluate risk-bearing capacity together with borrowers and take steps to contain the risks where necessary.

Enhancement of business models
The traditional business model of Austrian banks, which is primarily focused on the lending and deposits business, has proved to be a stabilising factor in recent years. Total deposits of Austrian non-banks (demand, term and savings deposits) were increasing and amounted to TEUR 346,376,950 in the fourth quarter of 2017 (2016: TEUR 340,431,510). The trend towards overnight deposits continued, as shown by the development of demand deposits: the year-on-year rise from TEUR 157,329,900 to TEUR 167,710,050 million corresponds to an increase of over 6%.

Although the Austrian saving rate, that is the ratio of saving to disposable income, fell sharply following the financial crisis, it has improved again somewhat since 2015. According to the OeNB, the net saving rate of Austrian households in the period from the fourth quarter of 2016 to the third quarter of 2017 was around 6.9% of nominal disposable household income.

Loans and advances to Austrian non-banks have consistently followed a slight upward trend in recent years and amounted to TEUR 331,596,640 in the third quarter of 2017 (31 December 2016: TEUR 330,812,440).

From a longer term perspective, low interest rates represent a challenge for the entire Austrian banking sector as the banks finance themselves via deposits to a substantial degree. This continues to put pressure on interest margins, which have traditionally been low in Austria. Furthermore, the banks' dense branch network is very costly, adversely affecting operating efficiency. The OeNB estimates that the negative effects of low interest rates will only gradually become apparent. In the face of this environment, Austrian banks are called upon to enhance their business models accordingly and to focus on digitalising their services as well. The aim is to increase operating efficiency and subsequently to strengthen capitalisation.

Improved capitalisation
The capitalisation of Austrian banks has improved considerably since the outbreak of the financial crisis in 2008. They achieved this firstly by building up additional capital and secondly by reducing risk-weighted assets. In the third quarter of 2017, the Austrian banking system reported a Common Equity Tier 1 capital ratio (CET1) of 14.9% (third quarter of 2016: 13.5%) and a total capital ratio of 18.4% (third quarter of 2016: 16.8%). An international comparison showed that the Austrian banks' consolidated CET1 ratio as of March 2017 exceeded the European average.

The systemic risk buffer proposed by the OeNB and recommended by the Financial Market Stability Committee (FMSG) for institutions exposed to certain systematic risks has been in force since 1 January 2016 with the aim of minimising or preventing long-term non-cyclical systematic risks. The size of the buffers is evaluated on an annual basis and is to amount to up to 2.0% of risk-weighted assets when complete on 1 January 2019.

Banks' own deposit protection funds
The Austrian Federal Act on Deposit Protection and Investor Compensation at Banks (ESAEG), which came into force in August 2015, removes the government protection for a portion of the deposits in the future. Instead, banks are required to build up their own deposit protection fund. As of 2019, a joint deposit protection fund will be set up at the WKO for the Hypothekenbanken (mortgage banks), banks, bankers, Volksbanken (credit unions) and Raiffeisenbanken (agricultural credit cooperatives), while savings banks will pursue their own solutions. This fund will be paid into continuously and – unlike before – in advance.

Consolidated earnings situation of Austrian banks:

EUR billion	Q3/2017	Q3/2016	Q4/2016	Q3/2015	Q4/2015
Net interest income	10,937	10,979	14,604	13,836	18,375
Operating profit	6,143	4,824	5,723	7,995	10,479
Earnings after taxes	5,143	4,516	4,979	4,453	5,178

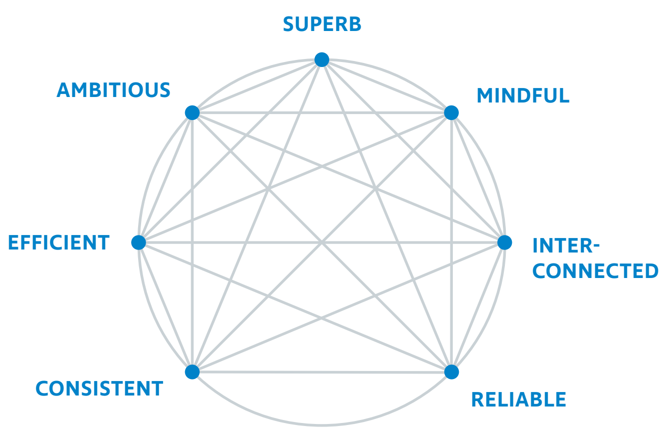
(Source: OeNB)

HYPO VORARLBERG
AS A STRONG BRAND

Stability, unity, reliability and attentiveness are values that have always made Hypo Vorarlberg stand out. They are values that find expression in long-term, trustful and successful customer relationships. In order to remain a strong and successful partner for people and business in its core markets Hypo Vorarlberg has conducted a two-year project to review its positioning and focused its brand towards the future. The new brand profile has been implemented in cooperation with an external consulting agency as part of a comprehensive project.

The Managing Board's aim in sharpening the brand's profile is to achieve the corporate objective of further expanding the number 1 position within Vorarlberg and achieving profitable growth outside of Vorarlberg. To this end it was necessary to clarify who we are, what makes us stand out and what we want to achieve, as well as to create a shared understanding of this. Seven core brand values emerged in the course of the branding process which provide a focus for employees and managers and are lived from the inside to the outside.

Hypo Vorarlberg's brand values



AMBITIOUS
We are continuously developing further while pursuing demanding goals and striving for top performance in the process.

SUPERB
We offer excellent services every day and are delighted that they are recognised and recommended.

MINDFUL
We are attentive, have a genuine interest and ensure a stable environment thanks to our forward-looking approach. We only do business that we can present to the outside world.

CONSISTENT
From the beginning we have remained true to ourselves, focused on our core business and pursued continuous, sustainable growth.

EFFICIENT
We seek intelligent solutions to enable us to achieve the best possible results as efficiently as possible.

INTERCONNECTED
We are a key part of the region and make a specific contribution to the well-being of the people and companies in our markets. Internally, we are interconnected and operate as one bank.

RELIABLE
We have been a trustworthy partner for our customers, our employees and the state for over 120 years.

Positioning
Based on its core competencies, Hypo Vorarlberg is positioned as follows: "As the entrepreneurial bank from Vorarlberg we offer corporate and private customers a forward-looking financial solution for those with purpose who are focused on achieving their objectives and aspirations through our proximity to people, our superior advice in a private setting and our excellent financial products."

Hypo Vorarlberg's pledge is based on this: "THE BEST CONSULTING FOR THOSE WITH PURPOSE."

New brand name and company name
Along with sharpening the brand profile we also took the decision to adjust the company name from "Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft" to the shortened brand name in order to create a well-rounded image. Therefore, since 1 October 2017 the Bank has been operating under the name of "Hypo Vorarlberg Bank AG" and presenting itself to the outside world with the brand name Hypo Vorarlberg. 1 October 2017 was thus an historic event: with the state deficiency guarantee for securities and customer deposits at Hypo Vorarlberg largely being discontinued, Hypo Vorarlberg's company name was changed for the third time in the Bank's 120-year history.

The Managing Board and the Supervisory Board consciously opted for a change as the prominence of the name "Hypo" and the positive associations with "Vorarlberg" form a symbiosis with appeal and distinctive character. This was also clearly shown by a survey of customers and non-customers and was the basis for choosing the name. Outside of Vorarlberg the new Hypo Vorarlberg brand name helps to differentiate us clearly from the other Hypo-banks, particularly in the Austrian locations of Vienna, Wels and Graz – but also at our Swiss branch in St. Gallen.

The entire visible brand image is being updated based on these changes. Since the fourth quarter of 2017 the new brand has also been visible to customers and the general public. The change is being implemented carefully and is set to be concluded by 31 December 2018. The previous style element, the blue sofa, is being given away to nursery schools in Hypo Vorarlberg's core markets in line with the corporate motto of "Achieving great things together".

STABLE BUSINESS PERFORMANCE
IN 2017

In a challenging economic and political environment that was characterised by negative interest rates, new regulations and advancing digitalisation, Hypo Vorarlberg generated a very good result in the 2017 financial year.

An important foundation for Hypo Vorarlberg's sustained economic success is its risk-conscious lending and business policy. The development of customer deposits and the financing volume conforms to Hypo Vorarlberg's strategy, which puts profitability and stability ahead of growth. This is also reflected in total assets, which, at TEUR 13,182,520 as of 31 December 2017, were 1.1% lower than in the previous year (2016: TEUR 13,324,387).

The persistently low and negative interest rates are a big challenge for a bank that traditionally operates mainly in customer business. Despite a slight rise in loans and advances to customers in 2017, net interest income was lower than in the previous year. By contrast, a slightly positive trend was observed in terms of net fee and commission income. Administrative expenses rose slightly again.

As the operating result was unusually high in 2016 due to gains on remeasurement of securities and reversals of valuation allowances and provisions for receivables (primarily due to HETA), the operating result before change in own credit risk in 2017 was significantly lower than this at TEUR 100,875 (2016: TEUR 151,574). Earnings before taxes were 18.6% lower than in the previous year, amounting to TEUR 95,752 (2016: TEUR 117,619). Consolidated net income after the deduction of taxes amounted to TEUR 67,476 in the reporting year (2016: TEUR 88,428).

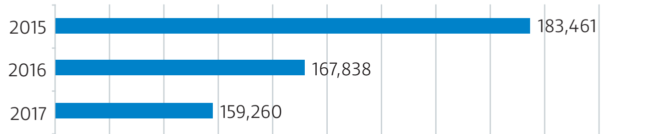
The individual items of the income statement in an annual comparison are as follows:

in TEUR	2017	Change	2016	2015
Net interest income	159,260	-5.1%	167,838	183,461
Net interest income after loan loss provisions	169,317	-21.4%	215,545	160,646
Net fee and commission income	34,833	2.4%	34,027	36,566
Administrative expenses	-99,952	2.9%	-97,114	-92,462
Operating result before change in own credit risk	100,875	-33.4%	151,574	102,910
Earnings before taxes*	**95,752**	**-18.6%**	**117,619**	**121,146**
Consolidated net income*	67,476	-23.7%	88,428	92,984

* 2016 includes reversals of valuation allowances and provisions for receivables due to HETA

Net interest income
As in previous years, interest-related business made a significant contribution to Hypo Vorarlberg's earnings. Loans and advances to customers increased from TEUR 9,049,998 to TEUR 9,330,521 (+ 3.1%) in the reporting year, although net interest income was 5.1% lower than in the previous year at TEUR 159,260 (2016: TEUR 167,838). This development is chiefly attributable to the persistently low or negative interest rate situation, which put considerable pressure on margins. In addition, the Austrian Supreme Court (OGH) delivered a decision on the handling of negative interest rates in the Private Customers segment. As a result, Hypo Vorarlberg refunded its customers overpaid interest in September 2017.

Net interest income
in TEUR

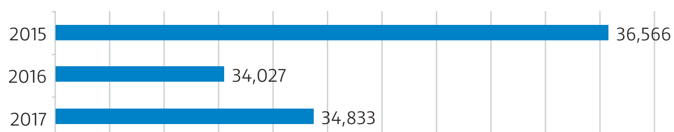


Loan loss provisions
Hypo Vorarlberg concentrates on the business areas whose mechanisms and rules it understands and only takes risks that it can manage on its own. In 2016, valuation allowances and provisions that had already been recognised in previous years in relation to Heta Asset Resolution AG (HETA) – the wind-down company for Hypo Alpe Adria, which was nationalised in 2009 – were largely reversed again and income of TEUR 47,707 recognised. As of 31 December 2017 there were no further claims/guarantees outstanding in relation to the HETA issue.

Hypo Vorarlberg reported a further positive figure of TEUR 10,057 under the loan loss provisions item in 2017, which once again meant that more valuation allowances could be reversed than were recognised. Hypo Vorarlberg's additions to loan loss provisions are generally at a low level, which reflects the good credit rating of the customers in the Bank's market areas.

Net fee and commission income
In the 2017 financial year net fee and commission income increased 2.4% year on year to TEUR 34,833 (2016: TEUR 34,027). Alongside securities commission, this item also includes fee and commission income from payment transactions, trading in foreign exchange and precious metals, and from lending business. The Group generated increased fee and commission income in all areas, while fee and commission expenses rose, particularly in the lending and leasing business, securities business and other service business.

Net fee and commission income
in TEUR



Net trading result (not including change in own credit risk)
Hypo Vorarlberg maintains a small trading portfolio per Art. 94 CRR with a focus on customer service. The Bank has no proprietary trading operations other than this. The net trading result includes the result from the valuation of derivatives and the measurement of financial instruments subject to the fair value option and amounted to TEUR 9,473 (2016: TEUR 27,998) in the 2017 financial year. The substantial decline is mainly attributable to the discontinuation of the improvement of the fair value measurement of individual financial instruments in the previous year in connection with the agreement reached in the debt dispute involving the state of Carinthia and HETA.

Result from other financial instruments
Net result from other financial instruments amounted to TEUR 5,130 in the 2017 financial year (2016: TEUR 10,813). The significant change largely results from the reversal of write-downs on securities in the previous year.

Administrative expenses
Hypo Vorarlberg's sound business performance is based firstly on a good earnings situation and secondly on vigorous cost management. The Managing Board has always paid great attention to keeping corporate structures as lean as possible in order to ensure that administrative expenses develop at a reasonably constant rate. In spite of this, costs rose again in 2017, partly due to high consulting costs.

Employees – a key foundation
Hypo Vorarlberg is a key employer in the region, employing almost 900 people within the Group. Employees are the most valuable foundation of any company, which is why the bank owes its sustained economic success to the competence, commitment and motivation of its employees.

As an advisory bank, Hypo Vorarlberg stands out because of its quality consulting and support for customers. Therefore, in the interest of the sustainable development of human resources the Managing Board attaches great importance to the solid training of new recruits and the continuous further development of the employees' professional and social skills. By helping employees to realise their individual potential, Hypo Vorarlberg can also remain an attractive employer in the long term.

Staff costs rose by 1.2% to TEUR 60,448 in 2017 (2016: TEUR 59,735), while wages and salaries also increased 2.0% from TEUR 44,436 to TEUR 45,340. The headcount in the Group climbed from an average of 725 to 737 employees (average number of employees for the year – full-time equivalent).

Key employee figures (Hypo Vorarlberg Group)

	2017	Change in %	2016	2015
Average number of employees (weighted)	737	1.7%	725	729
of which apprentices	8	14.3%	7	7
of which parttime	93	5.7%	88	80
Employees at year-end (head-count)	886	3.0%	860	838
of which women	508	3.9%	489	478
of which men	378	1.9%	371	360
Proportion of women (incl. apprentices)	57.3%	0.8%	56.9%	57.0%
Proportion of men (incl. apprentices)	42.7%	-1.1%	43.1%	43.0%
Average period of employment in years	11.30	4.3%	10.83	10.50
Average age in years	39.62	0.1%	39.60	39.20

Material expenses increased 8.8% year on year from TEUR 32,966 to TEUR 35,869. This increase is largely the result of increased IT costs, high project and consulting costs, for example for implementing the new brand, and the payment of higher fees to the Austrian Financial Market Authority (FMA).

Hypo Vorarlberg's administrative expenses amounted to TEUR 99,952 in 2017, which represents an increase of 2.9% compared to the previous year (2016: TEUR 97,114).

Administrative expenses
in TEUR

Other income/expenses
Hypo Vorarlberg's other income rose from TEUR 21,010 in the previous year to TEUR 29,371 (+ 39.8%). At TEUR 29,178, other expenses were considerably lower than in the previous year (2016: TEUR 64,830) when, for example, a one-off payment for the stability fee was required. This item also includes payments for the resolution and deposit protection fund.

Result from equity consolidation
The net result from equity consolidation amounted to TEUR -17,661 as at 31 December 2017 (2016: TEUR 2,451). The negative net result is attributable to a partial write-down of the investment in HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) in the first quarter of 2017. Reasons behind this remeasurement were the stalled exit process and the associated liquidity requirement of a portfolio company, in which HUBAG holds an interest. In connection with the injection of additional liquidity into HUBAG, Hypo Vorarlberg acquired a majority share in the company – closing took place in the third quarter. On the basis of purchasing shares, the Bank increased its holding in HUBAG from 43.29% to 79.19%.

Key management indicators

	2017	Change	2016	2015
Return on Equity (ROE)	9.70%	-39.9%	16.14%	11.67%
Cost-Income-Ratio (CIR)	55.34%	0.1%	55.27%	45.34%
Total capital ratio	18.01%	9.0%	16.52%	14.82%
Tier 1 capital ratio	14.82%	11.2%	13.33%	11.17%

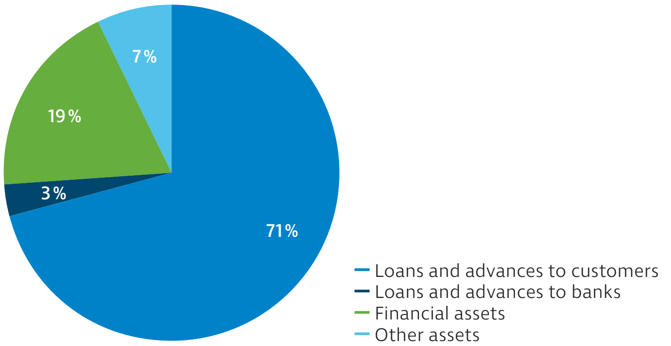
Return on equity (ROE) before taxes declined from 16.14% in the previous year to 9.70%. This was partly due to the HUBAG measurement and increased expenses as well as low net interest income. The Cost-Income-Ratio (CIR) of Hypo Vorarlberg stood at 55.34% as of 31 December 2017 (2016: 55.27%). The Bank's solvency ratio was 18.01% as of 31 December 2017 (2016: 16.52%); the core capital ratio (T1) was 14.82% (2016: 13.33%).

CHANGES IN THE GROUP'S NET ASSETS AND FINANCIAL POSITION

Hypo Vorarlberg's total consolidated assets decreased by 1.1% year on year to TEUR 13,182,520 as of 31 December 2017 (2016: TEUR 13,324,387).

Balance sheet assets in TEUR	2017	Change	2016	2015
Loans and advances to customers	9,330,521	3.1%	9,049,998	9,061,358
Loans and advances to banks	450,897	-21.6%	575,289	650,129
Financial assets	2,532,766	-5.3%	2,675,194	2,671,125
Other assets	868,336	-15.2%	1,023,906	1,519,799
Total	**13,182,520**	**-1.1%**	**13,324,387**	**13,902,411**

Loans and advances to customers constituted the largest item of Hypo Vorarlberg's balance sheet assets and climbed 3.1% year on year to TEUR 9,330,521 (2016: TEUR 9,049,998). By contrast, loans and advances to banks decreased by 21.6% in 2017 to TEUR 450,897 (2016: TEUR 575,289). Financial assets in the form of securities amounted to TEUR 2,532,766 as of 31 December 2017 and fell 5.3% year on year (2016: TEUR 2,675,194). Other assets decreased 15.2% to TEUR 868,336 due to the measurement of derivative financial instruments (2016: TEUR 1,023,906).



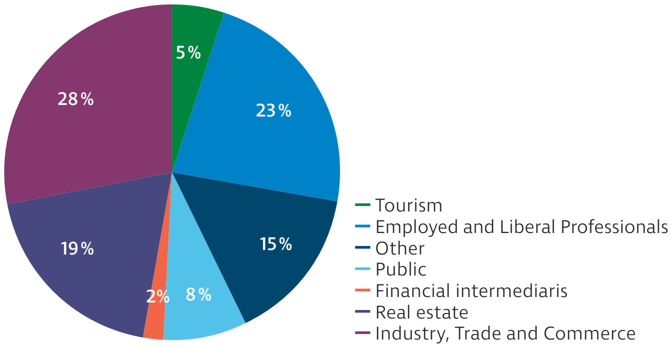
As of 31 December 2017, Hypo Vorarlberg reported loans and advances to customers in Swiss francs totalling TEUR 1,441,682 (2016: TEUR 1,648,257) within the Group. Part of the loans and advances to customers relates to the St. Gallen branch and does not represent a foreign currency risk. The cross-border commuters in Vorarlberg with income in a matching currency are also to be taken into account, which further reduces the portion subject to foreign currency risk.

The Swiss National Bank (SNB) lifted the minimum rate of 1.20 francs per euro at the beginning of 2015, causing the exposure of CHF borrowers to rise sharply at that time. Due to the continuing low interest rates in Swiss francs, however, Hypo Vorarlberg has had no major problems with respect to customers servicing these loans since then. Where necessary, the Bank reduced the burden on customers somewhat through extensions or suspensions of redemption payments.

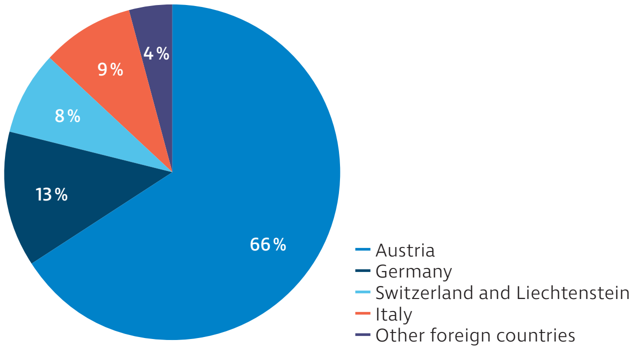
Hypo Vorarlberg had already begun strictly limiting the issue of loans in CHF over the previous few years, particularly in the Private Customers segment. The proportion of foreign currency financing (predominantly in CHF) in the Private Customers segment – not including the St. Gallen branch – has declined since 2009 from around 60% to around 26% at the end of 2017 (2016: 32%); the proportion of foreign currency financing in the Corporate Customers segment fell from approximately 23% to almost 7% (2016: 9.5%).

Loans and advances to customers – breakdown by industry

In terms of loans and advances to customers, lending in the real estate sector rose particularly sharply. Further details are provided in the Note (17) Loans and advances to customers (L&R).

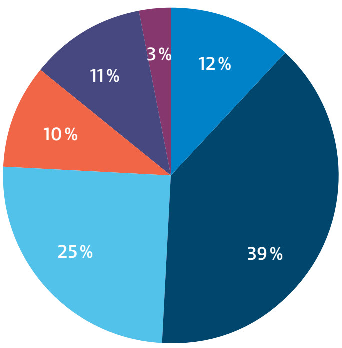


Loans and advances to customers – breakdown by region



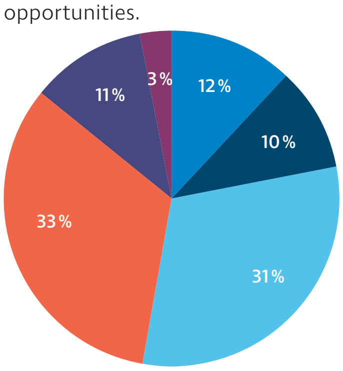
Balance sheet liabilities
Amounts owed to banks almost tripled year on year, amounting to TEUR 1,598,964 at the end of the year (2016: TEUR 560,377). This significant change is primarily due to the use of longer term refinancing operations with the ECB (TLTRO II). By contrast, amounts owed to customers fell by 2.0% to TEUR 5,175,661 (2016: TEUR 5,282,097).

Shareholders' equity increased by 6.0% year on year to TEUR 1,118,579 (2016: TEUR 1,054,939), while Tier 2 capital decreased by 30.0% to TEUR 272,204 (2016: TEUR 389,015). This reduction is attributable to the expiry of state-guaranteed subordinated bonds.



Refinancing structure
Savings deposits (including capital savings accounts) at Hypo Vorarlberg declined by 0.7% in 2017 compared to the previous year and amounted to TEUR 1,243,235 at the end of the year (2016: TEUR 1,251,687).

Liabilities evidenced by certificates, which fall under the LAC and LAV measurement categories, decreased again in the year under review: in 2017 the volume declined by 7.5% to TEUR 4,388,696 as planned (2016: TEUR 4,743,553). In September 2017, the majority of the Vorarlberg state guarantees for securities and savings deposits at Hypo Vorarlberg expired. As a result, higher volumes were due for repayment in the year under review. In preparation for this the Bank had already carried out prefunding in recent years and bought back outstanding issues prematurely from the market. The remaining volume was replaced in the course of new issuing activity. In addition, the Bank participated in the ECB's TLTRO II programme in order to exploit longer term refinancing opportunities.



CHANGES IN OWN FUNDS

Composition of own funds in accordance with CRR and capital ratios

in TEUR	2017	Change	2016	2015
Total risk exposure amount	**7,377,316**	**-2.2%**	**7,544,173**	**7,832,981**
Common equity Tier 1 capital (CET1)	1,083,771	8.8%	996,496	874,848
Additional Tier 1 capital (AT1)	9,504	3.1%	9,219	0
Tier 1 capital (T1)	**1,093,275**	**8.7%**	**1,005,715**	**874,848**
Tier 2 capital (T2)	235,083	-2.4%	240,814	285,910
Own Funds	**1,328,358**	**6.6%**	**1,246,529**	**1,160,758**
CET1 capital ratio	14.69%	11.2%	13.21%	11.17%
Surplus of CET1 capital	751,792	14.4%	657,009	522,364
T1 capital ratio	14.82%	11.2%	13.33%	11.17%
Surplus of T1 capital	650,635	17.6%	553,065	404,870
Total capital ratio	18.01%	9.0%	16.52%	14.82%
Surplus of total capital	738,172	14.8%	642,995	534,120

As at 31 December 2017, Hypo Vorarlberg's share capital and participation capital amounted to TEUR 165,435 (2016: TEUR 165,435).

Hypo Vorarlberg is ensuring a sound and sustainable capital structure through ongoing optimisation measures. An additional Tier 1 bond with a volume of TEUR 10,000 was issued back in 2016 and the Bank also issued a subordinated bond in 2017. Overall, the core capital (T1) increased by 8.7% to TEUR 1,093,275 as of 31 December 2017 (2016: TEUR 1,005,715). However, the supplementary capital (T2) decreased, partly due to repayments, and was reported at TEUR 235,083 as of 31 December 2017 (2016: TEUR 240,814).

Hypo Vorarlberg already meets the Basel III capital requirements, which are being introduced in stages up to 2019. As of 31 December 2017, the attributable own funds according to CRR totalled TEUR 1,328,358 (2016: TEUR 1,246,529) and are well in excess of the minimum required by law. The total risk exposure (risk-weighted assets) was reduced, including via conclusion of a synthetic SME securitisation (guarantee agreement with the European Investment Fund), and fell from TEUR 7,544,173 in the previous year to TEUR 7,377,316, substantially reducing the burden on the Bank's own funds. Due to this development, Hypo Vorarlberg improved its solvency ratio to 18.01% as of the end of 2017 (31 December 2016: 16.52%), while the core capital ratio (T1) was also raised to 14.82% as of the end of 2017 (31 December 2016: 13.33%). The Common Equity Tier 1 capital ratio (CET1) climbed from 13.21% to 14.69%.

Hypo Vorarlberg also intends to increase its capitalisation further in the future in line with the Managing Board's plans for sustainable growth and the expectation of new regulatory requirements.

DISCLOSURE UNDER SECTION 243A OF THE AUSTRIAN CORPORATE CODE (UGB)

Share capital, share denominations and participation capital

The subscribed capital of Hypo Vorarlberg consists of share capital of TEUR 156,453 (2015: TEUR 156,453) which, like the participation capital, is fully paid in. As at 31 December 2017, 305,605 shares and 1,000,000 participation certificates with a nominal value of EUR 9.00 were issued.

Shareholder structure

The equity interests of the shareholders break down as follows:

Shareholders	Interest	Voting rights
Vorarlberger Landesbank-Holding	76.0308 %	76.0308 %
Austria Beteiligungsgesellschaft mbH	23.9692 %	23.9692 %
- Landesbank Baden-Württemberg	15.9795 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.9897 %	
Share capital	100.0000 %	100.0000 %

RATINGS OF HYPO VORARLBERG

Moody's

As a result of the HETA moratorium, Moody's downgraded Hypo Vorarlberg's long-term rating from "A2" negative to "Baa1" negative in May 2015. In April 2016, the rating agency changed the outlook from negative to stable. The improved outlook was based on a stabilised credit profile as the Bank had reduced its exposure to loss with respect to HETA liabilities.

On 7 February 2018, Moody's published an update for Hypo Vorarlberg's rating. Encouragingly, the Bank improved its long-term rating by one notch from "Baa1" (stable) to "A3"; the outlook remains stable. The subordinated debt rating was also raised from "Ba1" to "Baa3" and the short-term rating (P-2) was confirmed. The stable capitalisation was the primary positive factor in this assessment. The improved rating is also attributable to the Bank's successful refinancing of its state-guaranteed liabilities in 2017 and better diversification of its maturity profile.

Standard & Poor's

In October 2015, S&P gave the Bank a credit rating of "A-" for non-current liabilities and "A-2" for current liabilities and assessed the outlook as stable. This rating assisted the Bank's access to planned refinancing on the capital market, which was particularly important during the course of 2017. S&P attributed Hypo Vorarlberg's good performance firstly to the stable economic situation and the sustainable, successful business model. Secondly, a positive effect comes from the good credit rating of the state of Vorarlberg, which subjected itself to a professional rating by S&P for the first time in 2015 as the Bank's majority shareholder. At that time the long-term rating of the state of Vorarlberg was "AA+" with a stable outlook.

On 30 October 2017, S&P announced an update for Hypo Vorarlberg's rating and raised the Bank's credit rating from "A-" to "A" with a positive outlook. Above all, the stable shareholder structure was assessed positively, as were the clear commitment of the majority shareholder (state of Vorarlberg) to the Bank and improved capitalisation. In 2017, S&P left the long-term rating of the state of Vorarlberg unchanged at "AA+".

oekom research

Hypo Vorarlberg also received a very good rating in the area of sustainability: renowned sustainability rating agency oekom research AG awarded the Bank the rating of "Prime Status" in its Corporate Rating Report of May 2017 as well as the "C" rating on its rating scale.

PANAMA PAPERS

Following the publication of the "Panama Papers" in early April 2016, with which Hypo Vorarlberg was also linked, the Austrian Financial Market Authority (FMA) examined the Bank's offshore business as part of a special investigation. Furthermore, the Vorarlberg State Parliament set up a commission of enquiry. This was curtailed due to a lack of significant findings, however. In early 2017, the final report was concluded, unanimously acknowledged by the Vorarlberg State Parliament and supplemented by minority reports from the individual parties.

In recent years, Hypo Vorarlberg has been gradually reducing the number of accounts for non-operative offshore companies. The low level of income attributable to these business relationships means that this change will not have a material impact on the Bank's earnings strength. Following on from the debate concerning the Panama Papers, the Managing Board adjusted its strategy and business activities with offshore clients together with the shareholders of the Bank.

On 21 March 2018, the FMA published a penal order against Hypo Vorarlberg in relation to this matter, although this has yet to become final and absolute. In the view of the Bank and its legal representative, the allegations put forward relate exclusively to unresolved legal matters for which there is currently no Supreme Court case law. The Managing Board and the legal representative of the Bank remain of the opinion that all of the Bank's transactions complied with the legal situation prevailing in the years in question. The Bank will therefore lodge a complaint against the penal order and, together with its legal representative, believes that many issues can be disproved in the judgement and the penalty at least substantially reduced.

EVENTS OF MATERIAL IMPORTANCE AFTER THE REPORTING DATE

No particularly significant developments occurred during the period between the end of the 2017 financial year and the preparation of the consolidated financial statements and their affirmation by the auditors that could affect the truest possible presentation of the net assets, financial position and results of operations of the Group.

DEVELOPMENT
BY SEGMENT

Hypo Vorarlberg is an independent regional bank. With its grounded business model, it has been a partner for the population and the economy in its core markets since its foundation over 120 years ago.

The Bank is represented by 17 branches in its home market of Vorarlberg and offers corporate and private customers the best consulting services – primarily in the financing and investment business. Further branches in Vienna, Graz and Wels ensure that "a piece of Vorarlberg" can be found in Austria's key economic centres. The Bank has a branch in St. Gallen in Switzerland and also counts selected regions in Southern Germany among its market areas. While customers in Vorarlberg are offered the entire range of products, services and consulting as part of a universal banking approach, in its other market areas Hypo Vorarlberg focuses more heavily on selected niches in corporate customer business, real estate financing and investment advisory services.

In addition to traditional banking products, customers can benefit from further banking-related products and services in the areas of real estate, leasing and insurance. The Hypo Immobilien & Leasing subsidiaries in Vorarlberg and Vienna and Hypo Versicherungsmakler in Vorarlberg offer expertise under the Hypo Vorarlberg brand. Hypo Vorarlberg Leasing AG, with its registered office in Bolzano, develops leasing solutions and has further branches in Como and Treviso.

CORPORATE CUSTOMERS

As an entrepreneurial bank, Hypo Vorarlberg primarily positions itself within the Corporate Customers segment as a banking partner for industrial companies and mid-sized businesses. This segment also supports self-employed persons and municipal customers. With its particular expertise in investment and project financing, developer financing, subsidies, foreign services and working capital financing, Hypo Vorarlberg has established itself in its core markets of Vorarlberg, Vienna, Styria, Upper Austria, Southern Germany and Eastern Switzerland and is the leading corporate bank in Vorarlberg. Its service offering is rounded off by outstanding investment advisory services and the real estate, leasing and insurance services provided by its subsidiaries. Excellently trained and largely long-term employees act as advisors and dialogue partners on an equal footing with corporate customers – to achieve great things together.

The Corporate Customer business at Hypo Vorarlberg performed exceptionally well in the 2017 financial year. Companies' willingness to invest rose significantly again over the course of the last year, thus enabling the Bank to increase its lending volume in all its markets. Overall, loans and advances to customers increased to TEUR 5,780,212 (2016: TEUR 5,403,932). Risk costs remain low due to the excellent ratings of corporate customers in the Bank's core markets; more valuation allowances were reversed than new valuation allowances recognised again in 2017.

In order to simplify payment transactions significantly for local companies, Hypo Vorarlberg brought an innovative new application for online payment transactions onto the market in spring 2017, assuming a pioneering role in the Austrian market thanks to this technology. In future, "Hypo-Office-Banking" (HOB) will enable corporate customers to manage all their national and international accounts in one web-based system.

Overall, the Corporate Customers segment generated earnings before taxes of TEUR 83,924 (2016: TEUR 66,264) in 2017. Net interest income as at 31 December 2017 amounted to TEUR 93,597, up 4.0% compared to the previous year (2016: TEUR 89,960). Net fee and commission income improved slightly to TEUR 12,833 (2016: TEUR 12,265), which was mainly attributable to higher commissions from loans and payment transactions.

Twice a year, Hypo Vorarlberg hosts a Breakfast for Entrepreneurs, each time in cooperation with a corporate customer. The Bank has been offering local entrepreneurs and businesspeople a communication platform in this way for many years now. Through the Hypo Academy, which is held in cooperation with the University of St. Gallen, numerous entrepreneurs and managers are given the opportunity of further education at a high level. These functions were readily accepted by around 700 corporate customers last year.

PRIVATE CUSTOMERS

True to its positioning, Hypo Vorarlberg offers its customers "The best consulting for those with purpose". For this reason the Bank attaches great importance to the best-trained advisors as competent and committed employees are the key to success. Regular customer recommendations motivate the Bank to continue on the path it has taken in the future, too.

Customers in the Private Customers segment benefit from flexible solutions as well as fair and transparent conditions combined with a comprehensive product range focusing on residential construction financing and investment advisory services.

Customer demand in the area of residential construction financing remains high and loan loss provisions are also lower than ever before, presumably due to the low interest rates. Nevertheless, statutory provisions such as the Austrian Mortgage and Property Loans Act (HIKrG) that came into force in 2016 are making lending difficult. As interest rates are expected to rise in the medium term, Hypo Vorarlberg offers borrowers the opportunity to secure the interest rate for a period of 10, 15 or even 20 years.

Low interest rates also continue to be a central issue in the deposits business. The interest rate situation makes it much harder for investors to find returns. Many customers continue to invest in real assets, preferably properties. Investments in securities are coming to the fore as an alternative.

Regulations and persistently low and negative interest rates are putting a heavy strain on the Private Customer business. The "penalty interest" to be paid on deposits at the ECB is not the only factor placing a burden on the earnings situation of Austrian banks. In 2017, the Austrian Supreme Court (OGH) decided that Banks must disclose a negative indicator in the consumer sector, which reduces the financing rate for customers. Hypo Vorarlberg has been taking the negative interest rate (Euribor, Libor) into account in existing loans since 2015 now. In September 2017, the Bank refunded its customers overpaid interest in relation to new agreements since 2015 in which the premium was set as a minimum interest rate.

Preparation for and implementation of new regulations (e.g. GDPR, MiFID II etc.) entailed significant effort and costs in 2017 and will have a sustained noticeable effect, particularly in the investment business. It is not only the banks who are criticising the outcome of the new MiFID II financial market regulation – customers are also showing their displeasure at being flooded with information on products and costs. Customers are furthermore restricted in terms of their investment options as the choice of products is shrinking on account of the new regulations.

Advancing digitalisation and the associated change in customer behaviour are bringing about a change in the business relationship between customers and banks. Physical proximity to customers is acquiring a different status as customers less frequently visit branches in person. Hypo Vorarlberg's aim is therefore to use digitalisation to connect existing branches in a way that enables customers to benefit from optimum interaction between people and technology.

Banking customers have been able to use the new online banking system, including the app, since autumn 2016. The range of products that can be bought online (giro and overnight deposit account, salary account, savings and capital account) was expanded in August 2017. We are considering an expansion to incorporate additional digital services. Digitalisation, the continued intense competition between banks in deposits and financing business and low interest rates are resulting in considerable pressure on conditions and margins. In 2017, Hypo Vorarlberg generated net interest income of TEUR 29,586 in the Private Customers segment, which represented a notable decline against the previous year (2016: TEUR 35,485). Net fee and commission income was slightly higher than in the previous year at TEUR 17,523 (2016: TEUR 17,227).

Overall, Hypo Vorarlberg generated earnings before taxes of TEUR 5,579 in the Private Customers segment (2016: TEUR 5,379) in 2017. In recent years earnings development has primarily been impacted by higher expenses due to the implementation of new regulatory and supervisory requirements and by the negative interest rate situation in the deposits business.

PRIVATE BANKING AND ASSET MANAGEMENT

Asset Management

The performance of the Asset Management business was affected by challenging market conditions again in 2017. The "Selection" strategy was developed in response to the technical transformation and the extraordinary fiscal and monetary policy measures resulting from high public debts, as well as demographic challenges.

In contrast to traditional strategies, Hypo Vorarlberg would like the research-based Selection strategy to enable rapid allocation adjustments through expansion of the investment spectrum and daily stock exchange meetings as well as create greater returns through active management decisions. Assessment of the individual asset classes is research-based and strengthened through the asset managers' many years of experience. The risk categories (defensive, balanced and offensive) are available from just TEUR 50; starting from assets of TEUR 250 they can be aligned even more closely with individual customer requirements. Hypo Selection aims to provide comprehensive consulting and asset structuring and develops an investment proposal – even including assets at other banks as well as real assets such as properties and real estate upon request. The new Selection strategy was well received by customers, with over 300 mandates concluded in 2017.

At the end of 2017, total assets under management at Hypo Vorarlberg amounted to TEUR 838,850 (2016: TEUR 868,810). The number of mandates managed was 2,842 as of 31 December 2017.

In addition, the Bank's Asset Management division took a first major step in the direction of sustainable asset management: the Hypo Weltportfolio Aktien umbrella fund is the largest global equity umbrella fund in Austria and may bear the SRI transparency seal based on its A rating following a screening by the Center for Social and Sustainable Products AG (CSSP) in Liechtenstein. In order to achieve this the umbrella fund was modified and over 70 % of the subfunds replaced. The challenge here was to find funds that have an excellent SRI value, are sufficiently large and have low overall costs (TER) as well as a track record that is at least as good as the benchmarks. This enabled us to achieve portfolio carbon outperformance (PCO) in CO_2 emissions of around 30 % compared to the MSCI World stock index. Through this active investment approach the Hypo Weltportfolio Aktien umbrella fund, which is used in almost all asset management (mandates), is helping to reduce global CO_2 emissions.

International performance standards in Asset Management

Since 2005, Hypo Vorarlberg has been the first and still the only Austrian bank whose asset management is aligned with the internationally-recognised Global Investment Performance Standards (GIPS)®. The auditing company PricewaterhouseCoopers Zurich conducted the most recent review of these standards as at year-end 2016 in spring 2017.

Superior Private Banking/Wealth Management

Hypo Vorarlberg has earned an excellent reputation in Private Banking and Wealth Management in recent years and has established itself as a quality alternative to other specialist private banks. The Managing Board gave a clear indication of the Bank's future growth course in Eastern Austria back in 2015 when it relocated the Singerstrasse branch into the well-known Zacherlhaus building, one of Vienna's most prestigious Jugendstil gems. The Bank also made appropriate investments in personnel in order to strengthen its presence and acquisition activities in the Vienna region. These are leading to the continuous acquisition of new customers in the top segment of high net worth private customers, entrepreneurs and foundations. The Bank has also succeeded in gaining a large number of freelancers as customers and expanding the scope of the business through this clientele.

The varied product range is oriented towards customers' needs in all areas and offers contemporary solutions through use of flexible optimisation concepts adapted to the market situation in asset management, use of viable alternatives to the money market in the investment business, online banking enhancements in payment transactions and not least through tailored financing.

When it comes to these products the greatest assets are the high degree of professional qualification and enthusiastic commitment of the Private Banking and Wealth Management advisors who not only inspire customers' confidence but are also regularly endorsed by anonymous testers.

In November 2017, the Elite Report (Munich) thus awarded Hypo Vorarlberg the highest grade of "summa cum laude" for the seventh time in a row. Of 348 tested banks and asset managers, only 46 institutions were worthy of an unqualified recommendation. Having achieved an excellent result of 635 points overall, Hypo Vorarlberg is one of the top 20 institutions and is positioned in third place among the Austrian banks.

The second testing authority for quality in private banking, the Fuchsbriefe (Berlin), also tested 92 financial institutions from Germany, Switzerland, Austria, Luxembourg and Liechtenstein. In this test Hypo Vorarlberg attained the very good position of 14th place among all the banks and asset managers in the German-speaking region. This is a very good position given that the first few places are occupied by specialist private banks. This excellent result is also reflected in the all-time best list (i.e. average over the last five years), in which Hypo Vorarlberg has advanced from 20th to 16th place.

Hypo Vorarlberg is thus the only Austrian bank to be placed in the top group in both tests. These accolades are an endorsement of our chosen path of remaining a bank that offers individual and high-quality advice while at the same time creating innovative, contemporary products and solutions to overcome the challenges of the capital markets and regulations as well as enormous overall cost pressure.

TREASURY/FINANCIAL MARKETS

The development of the Treasury/Financial Markets division was dominated by the stringent refinancing requirements that became necessary following the expiry of the state of Vorarlberg guarantees at the end of September 2017. Hypo Vorarlberg managed to refinance these maturities without any problems thanks to extensive prefunding, abundant covered pools and a good capital market situation. 2017 was also characterised by numerous regulatory and internal projects (MiFID II, green bond, SME securitisation), which were all concluded successfully.

The net interest spread in the Treasury/Financial Markets division came under severe pressure due to the negative interest rates on the money markets. By contrast, the structure contribution developed positively, slightly exceeding the annual target. The risk costs were lower than planned on account of positive economic and market developments. Overall, the division reported negative earnings before taxes of TEUR -487 (2016: TEUR -11,202).

For 2018, the capital markets are expected to remain favourable and capital market yields are expected to rise slightly following the end of the ECB purchase programme. Interest rate pressure will continue on the money markets.

Active/passive management and investments (APM & Investments)

A net volume of approximately TEUR 453,600 was invested in bonds by the APM & Investments unit in 2017. The weighted remaining term of these new investments is 5.4 years. The average asset-swap spread of the new investments is 0.23% and the average rating of new purchases is "AA-".

The capital market environment was characterised by continuing tight credit margins and low capital market rates. In the year under review, major decision-making criteria for new investments were once again their LCR or ECB eligibility and eligibility for the public cover pool. In consideration of the risk weighting investments were made in a manner protecting equity.

Refinancing and investor support (Funding & Investor Relations)

The majority of Hypo Vorarlberg's state-guaranteed bonds and promissory note loans were repaid in the year under review. Overall, over 50 own bonds with a total volume of TEUR 2,140,124 were due in 2017. 43 new issues with a total volume of TEUR 2,139,793 were carried out for refinancing purposes.

Of particular note here are a seven-year benchmark mortgage bond with a volume of TEUR 500,000 that was issued with a re-offer spread of mid-swaps + 2 bps and a five-year TEUR 300,000 green bond that Hypo Vorarlberg issued in September 2017 via the banking syndicate (ABN Amro Bank N.V., DZ Bank AG, Erste Group Bank AG and HSBC Bank plc). The green bond was issued with a re-offer spread of mid-swaps + 57 bps. According to the syndicate banks' analysis, around a third of the issue was placed with distinctly green investors. Hypo Vorarlberg was thus able to issue the very first international public green bond placed by an Austrian bank. The liquidity raised will be used for financing and refinancing energy-efficient buildings in line with the green bond principles.

Money, foreign exchange and interest rate derivatives trading

In the first half of the 2017 financial year, Hypo Vorarlberg built up an extremely high level of readily accessible short-term liquidity that at times amounted to over EUR 1 billion. Furthermore, a free collateral volume of at least EUR 1 billion was available to money market trading at all times for tender operations or repos. These costly measures were deliberately taken in August and September in particular in view of the large liquidity outflows in these months. Liquidity subsequently declined to the desired marginally positive level again by the end of the year. Money market trading managed Hypo Vorarlberg's readily accessible short-term liquidity with almost 1,300 transactions with a total trading volume of just over TEUR 15,000,000.

The areas of foreign exchange and interest rate derivatives trading with customers performed in contrast to one another. While income from foreign exchange trading declined by over 15.0% in spite of increased transaction numbers, income figures in the area of interest rate derivatives improved despite previously having been at a relatively modest level. A total of over 2,800 customer transactions were concluded in interest rate derivatives and foreign exchange trading in 2017 with a total volume of over TEUR 2,100,000.

Securities trading (non-proprietary)

The annual securities trading volume at the branches (non-proprietary) amounted to approximately TEUR 1,028,000 in the 2017 financial year. Sales thus increased by TEUR 120,200 or 13.20% compared to the previous year. Investment in shares, certificates and warrants continues to increase, while interest in investing in bonds remains low due to low interest rates.

Fund Service
The Fund Service unit was managing a volume of TEUR 7,260,000 as at the end of December 2017 (2016: TEUR 6,945,000). This represents growth of TEUR 315,000 or 4.54%. This rise can largely be explained by the transfer of three special funds and additional new investments by existing special fund customers. In addition, three public funds and two further special funds were launched during the last reporting period. In the last year we were also able to acquire a further large special fund customer whose special fund portfolio with a volume of approximately TEUR 500,000 was transferred in January 2018.

Swap group
As at 31 December 2017, the Swap group managed a derivatives portfolio comprising 1,033 swaps, interest rate options and currency options with a nominal volume of around TEUR 9,361,229, which corresponded to a slight decline compared to 2016. Market values fell owing to rising interest rates combined with an excess of receiver swaps in the derivatives portfolio. This was also reflected in the cash and securities collateral deposited to hedge derivatives exposure. The carrying amount of cash collateral changed from TEUR -18,919 to TEUR -52,560 (collateral delivered).

The year under review was also characterised by the implementation of new regulations. It was necessary to adjust existing reporting in line with the European Market Infrastructure Regulation (EMIR) and new derivatives reporting for MiFID II (Markets in Financial Instruments Directive) was implemented within the time limit. System enhancements were also designed for International Financial Reporting Standard 9 (IFRS 9) and are to be completed in 2018.

EIB/EIF financial guarantee
At the end of 2017 a guarantee agreement was concluded with the European Investment Bank/European Investment Fund (EIB/EIF Group) for a credit portfolio issued by Hypo Vorarlberg (TEUR 330,901) to small and medium-sized enterprises (SMEs) and mid caps in Austria and Germany for capital relief purposes. With this financial support Hypo Vorarlberg can expand its lending to private households and corporate customers for energy-efficient building renovations or the construction of near-zero energy buildings as well as its lending to SMEs and mid caps.

CORPORATE CENTRE
In addition to the business segments mentioned above, the Corporate Centre item includes the refinancing of investments. The Corporate Centre contributed earnings of TEUR 6,736 in 2017 (2016: TEUR 57,178). This substantial change is mainly attributable to the one-time effect resulting from the reversal of valuation allowances for HETA in the previous year and the measurement of HUBAG in 2017.

MAJOR SUBSIDIARIES
OF HYPO VORARLBERG

HYPO IMMOBILIEN & LEASING GMBH

Hypo Vorarlberg's entire Austrian and Swiss leasing and real estate business is combined in the subgroup "Hypo Immobilien & Leasing". Hypo Immobilien & Leasing GmbH offers customers real estate services ranging from real estate brokerage through property appraisal, construction and property management to facility management. It offers private customers and SMEs financing solutions in the areas of vehicle, movables and real estate leasing. Hypo Immobilien & Leasing GmbH has its headquarters at the Hypo Office in Dornbirn and has additional locations in Bregenz, Bludenz, Feldkirch and Vienna.

Real estate brokerage services are offered in Bregenz, Dornbirn, Bludenz, Feldkirch and Vienna. Leasing customers are supported by specialists in Dornbirn and Vienna. Marketing activities in the Austrian leasing market are carried out by consultants at the offices of Hypo Vorarlberg, while the Swiss leasing market is managed by an in-house sales team. As at 31 December 2017, Hypo Immobilien & Leasing GmbH had a headcount of 49 employees (2016: 48).

Since the end of October 2015, the Vienna team of Hypo Immobilien & Leasing GmbH has been based at its new location in the Zacherlhaus building together with the Bank. Since then, cooperation with the advisors at the Vienna branch has been stepped up so as to enable customers to benefit from additional advisory services. The property appraisal area was expanded further over the previous year, particularly in the Vienna region. As has been the case in Vorarlberg for years, the team carries out valuations for Hypo Vorarlberg especially for financing purposes. In addition, an in-house real estate broker was recruited for the Vienna location to act as a bridge between Vienna and Vorarlberg for all real estate matters.

Each year, the Hypo Immobilien & Leasing GmbH experts publish a recommended price brochure providing points of reference to be used when valuing property. In order to make it easier to access this information, as long ago as 2015 Hypo Immobilien & Leasing GmbH became the first real estate company in Vorarlberg to develop a mobile recommended price app which users can download free-of-charge onto their iPhone, iPad or Android smartphone.

For 2016, Hypo Immobilien & Leasing GmbH reported earnings before taxes of TEUR 1,059 (2016: TEUR 656). The consolidated earnings before taxes of the companies mainly included in the consolidated financial statements and belonging to the real estate and leasing subgroup came to TEUR 4,715 as at 31 December 2017 (2016: TEUR 7,959).

The volume of new business in the movables and vehicle leasing sector amounted to TEUR 38,908 in the 2017 financial year (2016: TEUR 53,760); in real estate leasing, new business amounted to TEUR 21,891 (2016: TEUR 6,975).

HYPO VORARLBERG LEASING AG, BOLZANO
HYPO VORARLBERG IMMO ITALIA GMBH, BOLZANO

Hypo Vorarlberg Leasing AG is headquartered in Bolzano and develops leasing solutions in the real estate and mechanical engineering sectors. The company has offered its products and services on the Northern Italian market for over 25 years. The subsidiary also has branches in Como and Treviso.

New business on the Italian leasing market grew by 13% to a total of EUR 26.6 billion in 2017. As in previous years, increases were particularly notable in vehicle and movables leasing, while real estate leasing fell by 1.8% in the same period. Construction leasing performed positively (+ 6.1%), whereas the volume relating to already completed properties declined by 6.9%.

In financial year 2017, Hypo Vorarlberg Leasing generated new volume of TEUR 68,288 which represents an increase of 9.6% (2016: TEUR 62,286). As planned, the company focused on real estate and movables leasing projects in the Trentino/South Tyrol region. As in previous years, particular emphasis was placed on top-quality lessees, valuable lease assets and appropriate advance payments and securities for new leases.

Hypo Vorarlberg Leasing Bozen AG reported net interest income of TEUR 13,259 in the 2017 financial year, almost equalling the record level achieved in the previous year (2016: TEUR 13,556). Overall, the company reported earnings before taxes of almost TEUR 83 (2016: TEUR 251); the decline is largely due to increasing the general bad debt allowance. The main areas of focus continued to be on consistent management of existing portfolios and efficient realisation of recovered lease assets.

In 2017 the company introduced a new rating programme developed by its parent company in Bregenz. It carried out extensive preparations for the introduction of the new IFRS 9 rules and also began implementation of a new IT program whose purpose is to increase automation and digitalisation of business processes.

For 2018, Hypo Vorarlberg Leasing AG is aiming to achieve new volume of approximately TEUR 90,000, which is to be acquired selectively and in compliance with strict risk criteria. Further interesting projects are also to be carried out in movables leasing, using the tax opportunities (130% or 250% depreciation and Sabatini grants), especially in the Trentino/South Tyrol and Milan regions.

The volume of commercial real estate sold in Italy rose for the third time in succession in 2017. This trend also reflects the current positive mood on the market, although prices continue to decrease slightly or stagnate. As in 2016, demand for rental properties was greater than demand for properties for sale in the year under review.

Hypo Vorarlberg Immo Italia GmbH sold real estate with a volume of over TEUR 12,000 in 2017. The number of properties let also rose substantially. This result was made possible by a series of new sales stimuli and a high degree of flexibility in the selling process.

It is particularly encouraging that Hypo Vorarlberg Immo Italia GmbH is considerably more successful in selling real estate compared to other leasing companies in the sector. New investments in existing real estate are planned for 2018 in order to enhance their attractiveness and marketability.

Hypo Vorarlberg Immo Italia GmbH began selling real estate on behalf of external financing companies back in 2016. Maintaining and further developing the existing network as well as various sales initiatives had a positive influence in the year under review as well: Hypo Vorarlberg Immo Italia GmbH reported significantly increased earnings before taxes of TEUR 368 for 2017 (2016: TEUR 252).

HYPO VERSICHERUNGSMAKLER GMBH

The 2017 reporting year was on the whole very encouraging for Hypo Versicherungsmakler. Both sales commissions and earnings rose substantially year on year. This positive development can be attributed to the following factors:

Firstly, the strong Vorarlberg economy played a considerable role as the increase in fee and commission income in property insurance is due in particular to the higher level of investment activity among companies. A further factor behind this good performance is the active collaboration with the corporate customer advisors at Hypo Vorarlberg. The Bank's corporate customers can take advantage of a free policy service involving a review and analysis of existing insurance cover. Customers are increasingly making use of this offer.

Hypo Vorarlberg's retail sales also launched a pension provision initiative in autumn 2017. In addition to other provision components pension provision is in especially high demand all year round as only customers who make provision in good time can cushion the pension gap. The cooperation partner in this segment continues to offer top returns with guaranteed performance and a pension guarantee period.

Overall, net fee and commission income at Hypo Versicherungsmakler improved to TEUR 1,574 in 2017 (2016: TEUR 1,352). This also caused earnings before taxes to climb sharply to TEUR 317 (2016: TEUR 47).

A spirit of great upheaval continues to prevail in the insurance market. Mergers and standardisation are intended to lead to cost savings. Furthermore, implementation of the General Data Protection Regulation (GDPR) and the Insurance Distribution Directive (IDD) is posing major challenges to the companies in this sector. These regulations are leading to huge changes in all sales channels. It is not yet possible to predict the extent to which this will influence sales results in the future. The statutory requirements are accelerating the trend towards mergers and cooperations among insurance brokers. Hypo Versicherungsmakler will also continue to monitor this development closely and conduct exploratory talks with a selection of interesting insurance brokers.

In the 2018 financial year it will be important to stay on the ball as regards pension provision with a particular focus on disability pension insurance. More extensive cooperation with the advisors at the Bank, particularly in the Private and Commercial Customers segments, is expected to contribute to Hypo Versicherungsmakler's robust and successful further development.

HYPO EQUITY UNTERNEHMENSBETEILIGUNGEN AG (HUBAG)

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) is an alternative investment fund according to the Alternative Investment Fund Manager Directive (AIFMD) in the field of venture capital and private equity. The core business focuses on financing small and mid-sized enterprises by providing equity and annex capital. HUBAG's investors are Hypo Vorarlberg Bank AG as well as insurance companies and foundations.

Due to the targeted portfolio reduction, the company's financial assets are now largely concentrated on just two investments. The value of one investment, which undertakes research and development in the biotechnology sector, is significantly influenced by the results of the research. This gives rise to a valuation risk. This company relies on the inflow of external funds. The second investment is a conglomerate that operates in the trade, plant construction and access technology segments.

In the 2016/17 financial year, HYPO EQUITY Unternehmensbeteiligungen AG generated negative comprehensive income after taxes according to IFRS of TEUR -123 (2015/16: TEUR 464). The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG to 30 September 2017 have been audited and issued with an unqualified audit opinion. The delays occurring in 2017 during the process of exiting an investment in conjunction with the liquidity requirement arising in this investment as a result prompted the management of HUBAG to remeasure this investment in April 2017, leading to the recognition of a negative net result for the 2016/17 financial year.

The 2017/18 financial year at HUBAG will again be characterised by targeted exits from the remaining investments. There is no guarantee that the value of the investments recognised by HUBAG can actually be realised in the exit.

OUTLOOK
FOR THE 2018 FINANCIAL YEAR

Positive economic environment
The Austrian economy posted strong growth in 2017 and foreign trade was facilitated by international economic development among other things. The Austrian goods industry, in particular, benefited from the rapid expansion of foreign trade in the year under review. Its production rose appreciably in the second half of 2017. Investments in capital equipment also increased as a result as companies expanded their production capacity. Private household consumption also supported the growth of the Austrian economy.

According to a forecast by the Austrian Institute of Economic Research (WIFO), Austria's economy will continue its strong growth course in 2018. The Institute expects GDP to rise by 3.0% in 2018 and 2.2% in 2019.

Hypo Vorarlberg's priorities for 2018
The Managing Board will continue to pursue Hypo Vorarlberg's proven, broad-based business model, although the negative interest rates and new legal requirements pose an extremely large challenge for the entire banking industry.

In order to remain a strong and successful banking partner for people and companies in its core markets Hypo Vorarlberg has conducted a project to review its positioning and focused its brand towards the future. The Bank will implement this during the course of 2017. The measures will be implemented at the subsidiaries in 2018.

2018 will bring further major challenges for banks: the regulations require them to build up equity on a continuous basis and secure a cost-optimal liquidity supply, while costs will continue to rise further and income in the customer business will come under pressure, for example due to negative interest rates. Advancing digitalisation and changing customer requirements are also bringing about new technological requirements of banks and their services. To ensure the profitability of Hypo Vorarlberg in the long term, growth markets outside our home market of Vorarlberg are to be increased.

As the leading corporate bank in Vorarlberg, Hypo Vorarlberg will continue to supply financing to businesses in its core markets in the future. Demand for credit grew again compared to the previous years. Increases are mainly expected in the markets outside Vorarlberg. Due to the good economic situation of companies, Hypo Vorarlberg again expects below-average risk costs in 2018. Increased use of services related to payment transactions is anticipated, while investment business with entrepreneurs is to be expanded.

Hypo Vorarlberg is very popular in the Private Customers segment thanks to its excellent credit rating. Closeness to customers and personal consulting are an important part of the corporate philosophy – something that is also noted and appreciated by customers. In order to ensure high-quality advice in the future as well, the Bank is continuing to invest heavily in education and training for its employees.

In investment, there is demand for innovative yet simple products. It will become apparent in the course of the year whether the guidelines introduced under MiFID II in 2018 will increase the level of consumer protection. The primary objective of Hypo Vorarlberg is to conserve its customers' wealth in real terms in the future as well. Because the low interest rates are expected to persist for a long time, the Bank continues to anticipate high demand for investments in housing.

The Managing Board remains committed to the branches as an important sales channel. In order to provide flexibility and the highest possible level of service – and also as a sign of appreciation towards their customers – the advisors have increased field services and appointments outside of regular business hours. At the same time, the Bank is continuously developing its online services and reflecting on how its locations can be structured sustainably. Due to the advancement of digitalisation and changing customer behaviour Hypo Vorarlberg is further called upon to find the best possible way to link personal consulting with digital services. A new "Digitalisation" department was set up as of 1 January 2018 to make optimum use of the opportunities and possibilities in this area.

Hypo Vorarlberg has successfully established itself in Private Banking and Wealth Management in recent years. Based on these good foundations, it aims to expand the Wealth Management segment further in Vorarlberg and the Vienna region.

In accordance with CRR, as of 31 December 2017 Hypo Vorarlberg had a solvency ratio of 18.01% (2016: 16.52%) and a core capital ratio of 14.82% (2016: 13.33%). In order to continue to secure excellent ratings and subsequently favourable funding in the future, the Managing Board attaches great importance to strengthening own funds sustainably.

Expected earnings development in 2018
Hypo Vorarlberg continues to pursue cautious risk and accounting policies.

The Managing Board has always paid particular attention to a sustainable liquidity policy. The Bank thus holds extensive liquidity reserves to allow the lending volume to further expand organically, meaning that a broad stabilisation of net interest income can be expected at the level of the previous year. Interest-related business will remain a stable pillar of the Bank's earnings development in 2018, although its contribution to earnings will remain low on account of the persistently negative and low interest rates.

Net fee and commission income will be impacted by liability fees which fall due in 2018 in connection with strategic measures to reduce the burden on own funds (EIB/EIF guarantee). The impact MiFID II will have on net fee and commission income is still difficult to foresee at present.

Mandatory application of IFRS 9 as of 2018 will affect the measurement of various items in the consolidated financial statements. Shareholders' equity will be reduced by around TEUR 20,000 as a result of the change.

Material expenses as well as staff costs are expected to increase slightly. The revision of the stability fee led to a very high advance payment in 2016. The ongoing payments will be lower in 2017 and 2018.

Performance in the first few months of 2018 was satisfactory and the Managing Board is confident of achieving the anticipated earnings, which will nevertheless be much lower than the previous year's in 2018. The known economic and political events require increased vigilance.

RISK MANAGEMENT
AT HYPO VORARLBERG

Hypo Vorarlberg addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and appropriate recognition of specific valuation allowances. The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria.

Hypo Vorarlberg increased its core capital ratio (T1) from 13.33% in the previous year to 14.82%. This large increase is primarily attributable to the good result, the successful placement of a Tier 2 bond and the securitisation of SME receivables.

The year under review was characterised by persistently low and even negative interest rates on the money and capital markets. Value at risk (99% /10 days) reached levels of up to TEUR 12,203 (2016: TEUR 18,400).

The main market risks at the Bank are interest rate risk and credit spread risk. Share price and foreign currency risks are of minor significance only. The Bank does not have a large trading book. With regard to the use of financial instruments in accordance with Section 267 (3) No. 5 UGB we refer to the disclosures in the Notes under item I. Accounting Policies.

The Bank utilises the money market for refinancing only to a limited extent. The Bank participated in the ECB's medium-term refinancing operations. The repayments for state-guaranteed bonds and promissory note loans were serviced without any problems in 2017.

Further explanations with regard to financial risks and risk management at Hypo Vorarlberg can be found in the consolidated financial statements under Notes (62-66). The full disclosure on the organisational structure, risk management and the risk capital situation according to CRR are posted on the internet at www.hypovbg.at.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN VIEW OF THE FINANCIAL REPORTING PROCESS

At Hypo Vorarlberg, responsibility for establishing and designing the internal control and risk management system (ICS) lies with the entire Managing Board. Hypo Vorarlberg is distinguished by a clear organisational, corporate, control and monitoring function, which includes in particular the dual-control principle, IT-assisted controls, and decision-making powers and monitoring instruments geared towards inherent risk.

The existing internal control system is optimised on a continuous basis. Further/new processes are included in the documented ICS in accordance with an assessment of materiality and the level of risk for Hypo Bank.

Control environment

Hypo Vorarlberg's Accounting department, which simultaneously functions as the Group Accounting department, reports to a member of the Managing Board and includes the bookkeeping, accounting, reporting, controlling and account management areas. The close cooperation between Group Accounting, Group Controlling and Group Risk Controlling allows standardised and coordinated internal and external reporting. The reporting processes and control measures are governed by work instructions, internal process descriptions, ICS documents and the Group manual.

Risk assessment and control measures

As part of the ICS, processes are checked for inherent risk and the existence of traceable, effective and efficient risk-mitigation measures and controls, adjusted and if necessary supplemented on an ongoing basis at least once a year. Moreover, a continuous control and effectiveness analysis is performed, and any potential improvement found is implemented.

The financial reporting process is not limited to internal and external reporting, but also uses guidelines and methods to govern the collection of data, creation of entries, recognition of transactions and valuation of business and is supported by various software solutions (Arctis, Geos, SAP, B&S, PMS, etc.) in the preliminary stages. These programs offer automatic assistance and checks for correct entry and use. In addition, ongoing manual checks are made in daily business. The regularity, transparency, effectiveness and efficiency of these checks are ensured by ICS monitoring.

Information and communication

Reporting is almost exclusively automated via upstream systems and automatic interfaces and guarantees current data for controlling, profit and loss accounts and other analyses. The accounting information is based on the same data and is coordinated for reporting on a monthly basis. Due to the close cooperation between Accounting, Controlling and Group Risk Controlling, plan/actual analyses are carried out continually. Mutual control and coordination between the departments is guaranteed.

For the monitoring and control function, the Bank's decision makers periodically receive a large number of reports, e.g. weekly returns, monthly performance previews with interest margin accounts, earnings projections at branch, segment and Bank level, plan/actual analyses of volumes and income, ALM reports, risk reports, treasury reports, quarterly cost accounts, various statistics and analyses.

On the basis of the above, periodic reports are issued to the Supervisory Board, Advisory Board and owners. A report is drawn up according to IFRS on a quarterly basis. At the end of the year, the Bank's annual financial statements are drawn up according to the Austrian Corporate Code (UGB)/Austrian Banking Act (BWG) and the Bank's consolidated financial statements are drawn up according to IFRS. There are also ongoing supervisory reporting obligations to the OeNB/FMA.

An ICS report is compiled every six months for the Managing Board and every year for the Audit Committee of the Supervisory Board and information provided on the operating principles of the ICS. ICS reporting follows the bottom-up approach: controls are recorded by those responsible for the process when put into operation. These records are pooled together with the results of the control and effectiveness analysis in the ICS report in order to provide information about the effectiveness of the ICS in conjunction with the findings of the audits by Internal Audit.

Monitoring
The quality of the internal control and risk management system is continually assessed by Internal Audit with regard to the reliability, regularity and legality of the accounting process and reporting. Internal Audit cooperates closely with the Managing Board members and managing directors of the subsidiaries and reports periodically to the Audit Committee of the Supervisory Board.

COMPLIANCE AND PREVENTION OF MONEY LAUNDERING
Hypo Vorarlberg's Compliance department reports directly to the Managing Board and its task is to monitor compliance with statutory supervisory requirements, particularly those under BWG, the Austrian Securities Supervision Act (WAG), the Austrian Stock Exchange Act (BoerseG) and the Federal Act on the Prevention of Money Laundering and Terrorist Financing in Financial Markets (FM-GwG).

Compliance
All employees are obliged to comply with the provisions of Hypo Vorarlberg's compliance guidelines. These guidelines are based on the Standard Compliance Code of the Austrian banking industry, WAG and BoerseG. Compliance with the regulations is ensured by way of regular, documented audits. New employees receive a comprehensive induction as part of the Hypo Basics, which usually take place on the first two days of the first month of employment. All employees are trained on an ongoing basis, must take a brief test every year and are informed accordingly in the event of changes.

The Compliance department regularly evaluates compliance with the provisions of MiFID II along with regulations which were also implemented in WAG and implements any necessary changes together with the specialist departments. These regulations protect investors and serve the efficiency and integrity of the market. Regular, documented checks are carried out here too.

Prevention of money laundering
Hypo Vorarlberg aims to prevent every form of money laundering and terrorist financing in connection with its business operations. In order to achieve this aim, three computer programs and additional audits are used to check for money laundering. These help employees when classifying customers with regard to the money laundering risk and flag suspicious payments. In addition, they ensure compliance with the legal requirements to carry out embargo checks and checks for politically exposed persons.

All employees complete a comprehensive money laundering test, in which they are familiarised with the legal provisions regarding the prevention of money laundering and terrorist financing and reasons to suspect them. In addition, all new employees receive training in the basic induction. All employees who have contact with customers must pass a refresher test every year. In further training, employees are taught about specific provisions and types of money laundering so that suspicious transactions can be recognised. Regular checks are performed at the branch offices, including by Internal Audit.

DATA PROCESSING/IT
Hypo Vorarlberg's IT operations are outsourced to Allgemeines Rechenzentrum GmbH (ARZ) in Innsbruck, which specialises in IT services for banks and financial institutions. The IT services provided support the main business processes at Hypo Vorarlberg.

ARZ is used as an IT service provider by numerous Austrian banks to map banking products and is also indirectly owned by these banks. Their common strategy is to bundle IT expertise in order to generate economies of scale and synergies for customers and harness potential efficiencies through technology. Bundling IT expertise within ARZ enables the banks to reduce the complexity of their IT infrastructure and at the same time to concentrate more heavily on their core business. This primarily involves in-house developments, but tried-and-tested standard products are also used. The central system for day-to-day banking business is the ARCTIS software solution, while standard solutions from GEOS, SAP, B+S and others serve as subsystems.

ARZ is responsible for operating the core banking systems and decentralised IT infrastructure. ARZ also implements the main requirements of new systems together with the banks. The cooperation between the participating banks with regard to the computer centre facilitates implementation of these requirements as the expertise and resources needed for design, implementation, testing and operational support are provided jointly by ARZ and the banks.

In the 2017 financial year, ARZ and the Bank itself focused their activities on changing over or adapting the systems that are necessary to comply with the statutory requirements of IFRS, MiFID II, PSD2, Basel and the new GDPR. In addition, a new internal rating system was developed and introduced. New versions of the online banking system in both the Private Customers and Corporate Customers segments make it easier for customers to use these systems.

ARZ's systems and processes are regularly subject to audits by both Internal Audit and an external auditing company. These audits and control measures are carried out based on ISAE 3402 – Type 2 and IWP/PE 14 Type 2 (Institute of Austrian Auditors (IWP) standard for auditing outsourced functions) and are adapted in line with changing conditions on an ongoing basis. The audits did not give rise to any objections.

ARZ and the banks counter IT risks through backup systems, failover concepts, security concepts and other measures. Clear rules on responsibilities and access, the requirement of the dual-control principle and an internal monitoring system are in place. In this context, Hypo Vorarlberg focuses on risk-mitigation benefits such as consistent use of standardisation, increasing cost efficiency and maintaining innovative capability.

As of 31 December 2017, Hypo Informatikgesellschaft m.b.H, a wholly owned subsidiary of Hypo Vorarlberg, employed 36 employees (headcount). These employees implement the systems developed and operated by ARZ within the Bank. Furthermore, the subsidiary performs key additional services for the Bank and the Group, thus providing the infrastructure and ensuring its technological advancement. Hypo Informatik also develops individual applications for which there are no adequate solutions within the ARZ group in order to optimise and standardise processes in the specialist departments. When doing so it uses a user authorisation concept for the wide-ranging solutions. Hypo Informatik is also audited regularly by internal and external auditors and is aligned with market standards.

IT operations at the St. Gallen branch are provided by a Swiss standard software solution comparable with the processes at ARZ. This is also audited by an external party and did not give rise to any objections. ARZ successfully converted its operations for this software in 2017. Standard software systems are also used at HIL Dornbirn and the leasing company in Bolzano.

DISCLOSURE OF INFORMATION
ON REMUNERATION POLICY AND PRACTICES IN 2017

In 2011, the remuneration policy of Hypo Vorarlberg was structured and redefined by the Managing Board in accordance with the statutory requirements and approved by the Supervisory Board. The updated principles were submitted to the Supervisory Board again in December 2016 and approved. The revised remuneration policy principles came into force in 2017.

The remuneration policy applies to all employees within the Hypo Vorarlberg Group. There are special provisions for risk bearers (identified staff). The remuneration policy was revised in cooperation with experts from Wolf Theiss Rechtsanwälte GmbH und Co KG.

The principles of the remuneration policy were adopted with regard to robust and effective risk management in concordance with the business strategy. They are decided upon annually in the Remuneration and Nominating Committee. In 2017, the Remuneration and Nominating Committee met a total of three times.

In addition to the Supervisory Board – specifically the Remuneration and Nominating Committee led by Alfred Geismayr – the Internal Audit department also acts as a controlling body for the Bank's remuneration policy. On behalf of the Supervisory Board, this department is charged with auditing the implementation of the current principles of the remuneration policy.

Employees at Hypo Vorarlberg are generally remunerated in line with the market with collectively agreed fixed salaries and any overpayment if necessary. In addition, managers and individual highly qualified employees can enjoy a variable salary component. The variable remuneration is only paid out via the salary.

For the payment of the variable component, certain criteria aligned to long-term success, which are individually defined in the employment contract in advance, must be met.

Significant criteria for the measurement of success in current employment contracts with variable salary components are, for example:

- Earnings from ordinary activities according to five-year planning
- Attainment of targets in the employee's own area according to the annual target-setting meeting
- Individual targets, employee's performance assessment
- Social performance criteria, management work, acquisition performance etc.

Besides standardised job specifications, annual IT-supported employee and target-setting meetings serve as a key management tool. This is strictly regulated in a specially defined works agreement.

All employees' variable remuneration components are capped and do not exceed a certain threshold of materiality in relation to total remuneration. Due to the prevailing proportionality principle according to Section 39b BWG, it is not necessary to restrict the payment or recognise a multi-year provision.

Since 2013, bonus agreements have been revocable, and the employer has been granted the right to make adjustments if required or in the event of changes in legislation. In the event of a deteriorated or negative financial or earnings situation (in line with no. 12 lit. a of the annex to Section 39b BWG), the payment can be cancelled entirely even if individual criteria are met.

To recognise particular commitment and loyalty of the employees, the Managing Board has decided to pay employees of Hypo Vorarlberg a one-off bonus of up to EUR 1,000 in 2018 for the 2017 financial year, under the same conditions as in 2017.

Remuneration policy for Managing Board members
Chairman of the Managing Board Michel Haller and Managing Board members Johannes Hefel and Wilfried Amann received a fixed basic annual salary for 2017 which was paid out in 14 instalments. There are no bonus agreements in addition to the remuneration payments agreed in the Managing Board contracts.

A full disclosure on the remuneration policy pursuant to CRR Article 450 of Regulation (EU) No. 575/2013 on remuneration policy and practice can be found online at www.hypovbg.at/Rechtsgrundlagen/Veröffentlichungen.

MINDFUL BUSINESS
SUSTAINABILITY AT HYPO VORARLBERG

Recent years were shaped by the financial crisis, rather weak economic development, which improved in 2017, and volatile markets. Hypo Vorarlberg has successfully mastered these challenges thanks to its solid, grounded business model. In order to remain a strong business, the Managing Board has developed a medium-term plan and strategies for the future. In line with economic, ecological and social objectives, the idea is to respond actively to new conditions and thus to sustain the Bank's success.

Clear focus
For the Managing Board, the level of financial success and the manner in which the business is run are equally important. Therefore, criteria for Hypo Vorarlberg's business transactions – primarily in the areas of financing and investment – are set down in the "Ethics and sustainability principles". The aim of this is to prevent risks from transactions involving the potential risk of conflict – especially with regard to environmental and climate-related, social and societal matters – and ensure compliance with rules of good conduct.

The top priority is long-term and organic growth to secure the Bank's continuing profitability rather than short-term profits. In order to guarantee these objectives, the corporate strategy and policy, target planning and remuneration system are harmonised. Sustainability is also paramount in customer business: instead of speculation and profit maximisation, the greatest attention is paid to security and conserving the value of customer funds.

Sustainability programme
Hypo Vorarlberg launched a sustainability programme for the planning and implementation of our sustainability targets back at the beginning of 2016 and created a new position for this purpose. This is intended to embed the topic even more strongly within the Bank. The rating agency oekom research AG awarded the Bank a "C" rating (Prime) in the oekom Corporate Report of May 2017. Hypo Vorarlberg has been reporting on its activities in the area of sustainability in its annual report since 2011. It prepared a separate sustainability report in accordance with the Global Reporting Initiative (GRI) Standards for the first time in 2016.

The new Austrian Act for the Improvement of Sustainability and Diversity (NaDiVeG) – which incorporates EU Directive 2014/95/EU in Austrian law – requires large public interest entities to disclose a non-financial statement as part of the management report for the first time in the 2017 financial year – or to prepare a separate report; Hypo Vorarlberg has decided to prepare a consolidated report. In conformity with the law this report addresses environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

Hypo Vorarlberg is meeting the statutory requirements via the 2017 sustainability report prepared in accordance with the GRI Standards (Core option). Pursuant to Section 267a (6) UGB, the non-financial report of the Hypo Vorarlberg Bank AG Group is not included in the Group management report but rather in the consolidated non-financial report of Hypo Vorarlberg Bank AG which is published as a separate sustainability report as well as on the company's website at www.hypovbg.at in the Hypo Vorarlberg/Nachhaltigkeit section.

Research and development
The Bank reviews the effects of economic and market developments on its income, capital and net assets on an ongoing basis. To survive among the competition, it is not enough just to know the current market conditions; it is also necessary to consider future scenarios. For several years, there has been a close partnership with Vorarlberg University of Applied Sciences for the purposes of research. The cooperation covers issues such as optimising calculation of the covered pool assets, optimum allocation of securities collateral and calculation of stress scenarios and restructuring measures in accordance with the Austrian Federal Act on the Restructuring and Resolution of Banks (BaSAG).

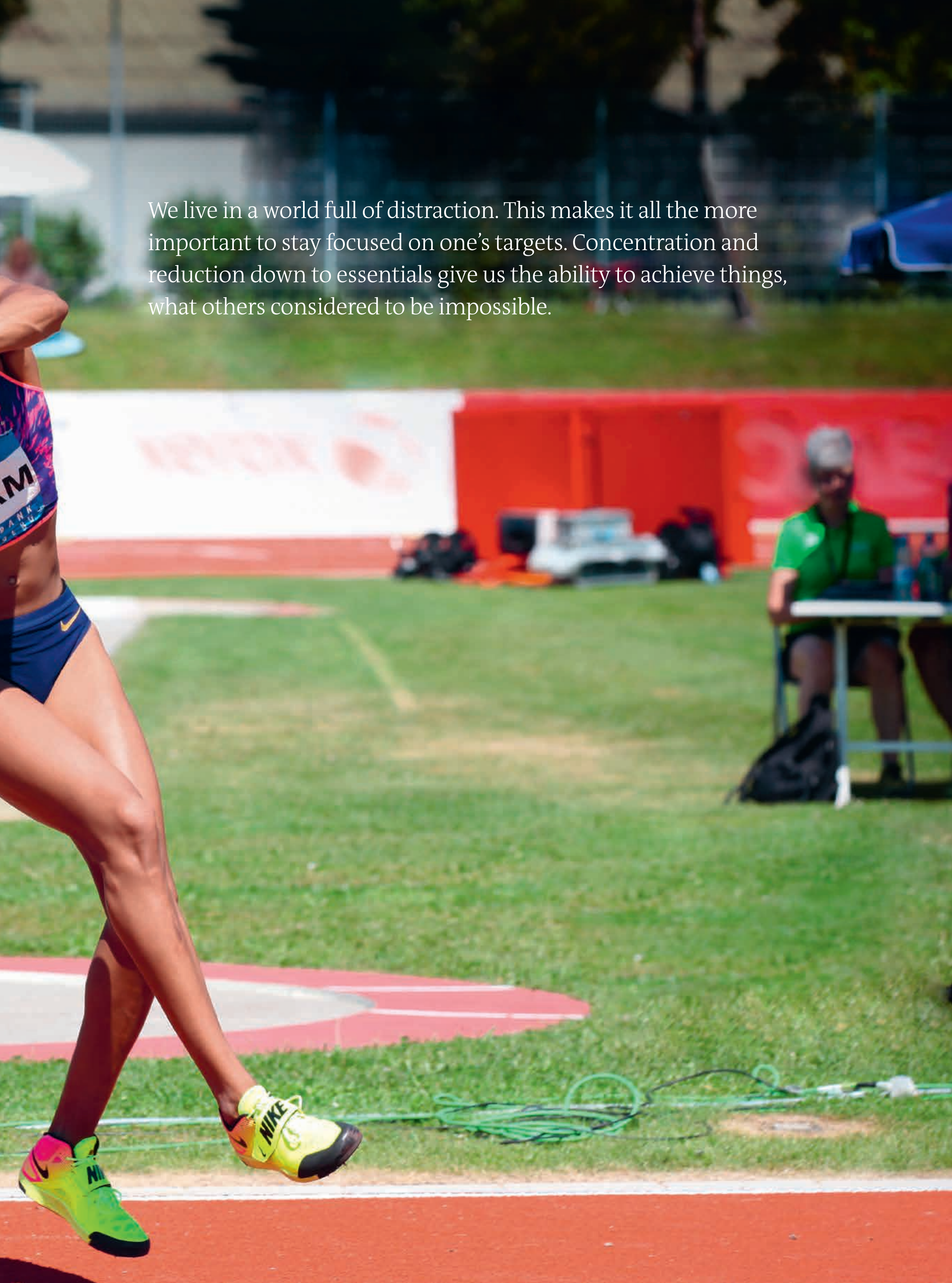
Hypo Vorarlberg is also represented in international networks and, for example, maintains a cooperation with the Business Engineering Institute St. Gallen, a leading institute in the German-speaking region that transfers knowledge gained from research and science into innovative solutions.

Before the detailed development of a new product or the inclusion of a third-party product in Hypo Vorarlberg's product range, a product and business introduction process is defined in order to guarantee an orderly approach and identify potential risks in advance.

FOCUSING ON THE GOAL.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

We live in a world full of distraction. This makes it all the more important to stay focused on one's targets. Concentration and reduction down to essentials give us the ability to achieve things, what others considered to be impossible.



ENCOURAGING RESULTS

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS DATED 31 DECEMBER 2017

I. STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

Income statement

in TEUR	(Notes)	2017	2016	Change TEUR	Change in %
Interest and similar income		253,975	265,310	-11,335	-4.3
Interest and similar expenses		-94,715	-97,472	2,757	-2.8
Net interest income	(5)	**159,260**	**167,838**	**-8,578**	**-5.1**
Loan loss provisions	(6)	10,057	47,707	-37,650	-78.9
Net interest income after loan loss provisions		**169,317**	**215,545**	**-46,228**	**-21.4**
Fee and commission income		38,513	37,342	1,171	3.1
Fee and commission expenses		-3,680	-3,315	-365	11.0
Net fee and commission income	(7)	**34,833**	**34,027**	**806**	**2.4**
Net result on hedge accounting	(8)	-458	1,674	-2,132	-
Net trading result (not including change in own credit risk)	(9)	9,473	27,998	-18,525	-66.2
Net result from other financial instruments	(10)	5,130	10,813	-5,683	-52.6
Administrative expenses	(11)	-99,952	-97,114	-2,838	2.9
Other income	(12)	29,371	21,010	8,361	39.8
Other expenses	(13)	-29,178	-64,830	35,652	-55.0
Result from equity consolidation		-17,661	2,451	-20,112	-
Operating result before change in own credit risk		**100,875**	**151,574**	**-50,699**	**-33.4**
Result from change in own credit risk	(9)	-5,123	-33,955	28,832	-84.9
Earnings before taxes		**95,752**	**117,619**	**-21,867**	**-18.6**
Taxes on income	(14)	-28,276	-29,191	915	-3.1
Consolidated net income		**67,476**	**88,428**	**-20,952**	**-23.7**
Of which attributable to:					
Parent company shareholders		66,986	88,426	-21,440	-24.2
Non-controlling interests		490	2	488	>100.0

Statement of comprehensive income

in TEUR	2017	2016	Change TEUR	Change in %
Consolidated net income	**67,476**	**88,428**	**-20,952**	**-23.7**
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation	-125	31	-156	-
Changes to AFS revaluation reserve	-371	700	-1,071	-
of which changes in measurement	-49	870	-919	-
of which changes in holdings	-445	64	-509	-
of which income tax effects	123	-234	357	-
Total items which can be reclassified to consolidated net income	**-496**	**731**	**-1,227**	**-**
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	992	695	297	42.7
of which changes in measurement	1,276	939	337	35.9
of which income tax effects	-284	-244	-40	16.4
Total items which cannot be reclassified to consolidated net income	**992**	**695**	**297**	**42.7**
Other income after taxes	**496**	**1,426**	**-930**	**-65.2**
Total comprehensive income	**67,972**	**89,854**	**-21,882**	**-24.4**
Of which attributable to:				
Parent company shareholders	67,482	89,852	-22,370	-24.9
Non-controlling interests	490	2	488	>100.0

II. BALANCE SHEET
DATED 31 DECEMBER 2017

Assets

in TEUR	(Notes)	31.12.2017	31.12.2016	Change TEUR	Change in %
Cash and balances with central banks	(15)	313,584	338,000	-24,416	-7.2
Loans and advances to banks	(16)	450,897	575,289	-124,392	-21.6
Loans and advances to customers	(17)	9,330,521	9,049,998	280,523	3.1
Positive market values of hedges	(18)	73,985	98,811	-24,826	-25.1
Trading assets and derivatives	(19)	190,940	309,314	-118,374	-38.3
Financial assets – designated at fair value	(20)	744,665	802,208	-57,543	-7.2
Financial assets – available for sale	(21)	686,598	769,093	-82,495	-10.7
Financial assets – held to maturity	(22)	1,101,503	1,103,893	-2,390	-0.2
Shares in companies valued at equity	(23)	4,195	34,750	-30,555	-87.9
Investment property	(24)	64,219	59,158	5,061	8.6
Intangible assets	(25)	33,914	2,011	31,903	>100.0
Property, plant and equipment	(26)	72,808	74,912	-2,104	-2.8
Tax assets		1,037	824	213	25.9
Deferred tax assets	(27)	8,984	9,198	-214	-2.3
Other assets	(29)	104,670	96,928	7,742	8.0
Total Assets		**13,182,520**	**13,324,387**	**-141,867**	**-1.1**

Liabilities and shareholders' equity

in TEUR	(Notes)	31.12.2017	31.12.2016	Change TEUR	Change in %
Amounts owed to banks	(31)	1,598,964	560,377	1,038,587	>100.0
Amounts owed to customers	(32)	5,175,661	5,282,097	-106,436	-2.0
Liabilities evidenced by certificates	(33)	3,296,773	2,682,267	614,506	22.9
Negative market values of hedges	(34)	119,041	146,847	-27,806	-18.9
Trading liabilities and derivatives	(35)	163,621	233,043	-69,422	-29.8
Financial liabilities – designated at fair value	(36)	1,310,885	2,826,384	-1,515,499	-53.6
Provisions	(37)	37,566	49,257	-11,691	-23.7
Tax liabilities	(38)	9,804	19,521	-9,717	-49.8
Deferred tax liabilities	(39)	8,841	2,678	6,163	>100.0
Other liabilities	(40)	70,581	77,962	-7,381	-9.5
Subordinated capital	(41)	272,204	389,015	-116,811	-30.0
Shareholders' equity	(42)	1,118,579	1,054,939	63,640	6.0
Of which attributable to:					
Parent company shareholders		1,108,017	1,054,901	53,116	5.0
Non-controlling interests		10,562	38	10,524	>100.0
Total Liabilities and shareholder's equity		**13,182,520**	**13,324,387**	**-141,867**	**-1.1**

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in TEUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve	Reserves from currency translation	Total parent company sharehold-ers	Non-controlling interests	Total share holders' equity
Balance 1 January 2016	**165,453**	**48,874**	**747,607**	**7,160**	**-1**	**969,093**	**48**	**969,141**
Consolidated net income	0	0	88,426	0	0	88,426	2	88,428
Other income	0	0	37	1,388	1	1,426	0	1,426
Comprehensive income 2016	**0**	**0**	**88,463**	**1,388**	**1**	**89,852**	**2**	**89,854**
Other changes	0	0	-138	0	0	-138	0	-138
Dividends	0	0	-3,906	0	0	-3,906	0	-3,906
Distributions to third parties	0	0	0	0	0	0	-12	-12
Balance 31 December 2016	**165,453**	**48,874**	**832,026**	**8,548**	**0**	**1,054,901**	**38**	**1,054,939**
Balance 1 January 2017	**165,453**	**48,874**	**832,026**	**8,548**	**0**	**1,054,901**	**38**	**1,054,939**
Consolidated net income	0	0	66,986	0	0	66,986	490	67,476
Other income	0	0	-173	668	1	496	0	496
Comprehensive income 2017	**0**	**0**	**66,813**	**668**	**1**	**67,482**	**490**	**67,972**
Consolidation changes	0	0	0	0	0	0	10,034	10,034
Other changes	0	0	-253	0	0	-253	0	-253
Dividends	0	0	-14,113	0	0	-14,113	0	-14,113
Balance 31 December 2017	**165,453**	**48,874**	**884,473**	**9,216**	**1**	**1,108,017**	**10,562**	**1,118,579**

Further details on equity and the composition of capital components – in particular the revaluation reserves – are given in Note (42).

IV. CASH FLOW STATEMENT

Cash flows from operating activities

in TEUR	2017	2016
Consolidated net income	67,476	88,428
Non-cash items included in consolidated net income and reconciliation with cash flow from operating activities		
Impairments/reversals on financial instruments, property, plant and equipment and intangible assets	43,396	-12,187
Allocations/reversals to/from reserves and loan loss provisions	-26,290	-75,816
Change in other non-cash items	80,609	170,327
Reclassification of income from the sale of financial instruments and property, plant and equipment	-6,427	-4,067
Other adjustments for interest, dividends received and income taxes	-134,484	-144,135
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks	104,305	80,238
Loans and advances to customers	-451,189	61,687
Trading assets and derivatives	611	12
Other assets	-12,207	-2,127
Amounts owed to banks	1,034,541	-583,864
Amounts owed to customers	-127,283	272,156
Liabilities evidenced by certificates	658,413	258,632
Trading liabilities and derivatives	-1	0
Financial liabilities – designated at fair value	-1,386,790	-615,587
Other liabilities	54	-18,051
Interest received	233,097	220,469
Interest paid	-106,623	-96,822
Income tax paid	-33,872	-29,190
Cash flows from operating activities	**-62,664**	**-429,897**

Cashflows from investing activities

in TEUR	2017	2016
Cash inflow from the sale/repayment of		
Financial instruments	515,137	378,051
Property, plant and equipment and intangible assets	1,475	1,583
Subsidiaries and participations	1,602	3,542
Cash outflows for investments in		
Financial instruments	-366,915	-379,079
Property, plant and equipment and intangible assets	-12,633	-4,383
Subsidiaries and participations	-4,475	0
Interest received	48,862	54,084
Dividends and profit distributions received	1,075	3,142
Cash flows from investing activities	**184,128**	**56,940**

Cashflows from financing activities

in TEUR	2017	2016
Cash changes in supplementary capital	-114,749	9,080
Dividends	-14,112	-3,918
Interest paid	-8,055	-7,548
Cash flows from financing activities	**-136,916**	**-2,386**

Reconciliation to cash and balances with central banks

in TEUR	2017	2016
Cash and balances with central banks at end of previous period	**338,000**	**712,491**
Cash flows from operating activities	-62,664	-429,897
Cash flows from investing activities	184,128	56,940
Cash flows from financing activities	-136,916	-2,386
Effects of changes in exchange rate	-9,550	852
Effects of changes in the scope of consolidation	586	0
Cash and balances with central banks at end of period	**313,584**	**338,000**

Further disclosures on the cash flow statement are shown under Note (45).

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

Hypo Vorarlberg Bank AG and its subsidiaries offer customers a broad spectrum of financial services. The core businesses are the Corporate and Private Customer segments and Private Banking. A range of leasing, insurance and real estate services are additionally offered. The Group's core market is the state of Vorarlberg, as well as Eastern Switzerland, Southern Germany and South Tyrol. In Eastern Austria the Bank has offices in Vienna, Graz and Wels.

The Bank is a stock corporation with its registered office in Bregenz, Austria, and is registered in Feldkirch, Austria, in the commercial register (FN145586y). The Bank is the ultimate parent company of the companies included in the consolidated financial statements. The shareholders of the Bank are presented under Note (52). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

The consolidated financial statements for the 2017 financial year and the comparative figures for 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that are in force and published by the International Accounting Standards Board (IASB) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC, formerly SIC, Standing Interpretations Committee) – as applicable in the European Union – and therefore fulfil the requirements of Section 59a of the Austria Banking Act and Section 245a of the Austrian Commercial Code.

On 30 March 2018, the Managing Board of Hypo Vorarlberg Bank AG authorised release of these annual financial statements.

All amounts are stated in thousand Euro (TEUR) unless specified otherwise. The tables below may contain rounding differences.

(2) PRINCIPLES AND SCOPE OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Hypo Vorarlberg Bank AG and its subsidiaries as of 31 December 2017. Subsidiaries are fully consolidated from the acquisition date, i.e. from the date on which the Group obtains control. Consolidation ends as soon as the parent company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared using the same accounting policies and reporting period as the financial statements of the parent company. On consolidation, intragroup expenses, income, receivables and liabilities are eliminated. Currency-related differences from debt consolidation and the elimination of income and expenses are recognised through profit and loss in the net trading result. The results of intragroup transactions are eliminated unless they are immaterial. The deferred taxes required by IAS 12 are recognised on temporary differences from consolidation. The amount of non-controlling interest is determined according to the interests of minority shareholders in the equity of the subsidiaries.

Business combinations are accounted for using the acquisition method. The costs of a business acquisition are measured at the sum of the consideration transferred measured at fair value as of the acquisition date and the non-controlling interest in the acquiree. For each business combination, the Group decides whether to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Costs incurred in connection with the business combination are recognised as an expense under administrative expenses.

When the Group acquires an entity, it assesses the appropriate classification and designation of the financial assets and liabilities assumed according to the terms of the contract, economic circumstances and the prevailing conditions on the acquisition date.

In addition to the parent company, our consolidated financial statements include 42 subsidiaries (2016: 31), in which Hypo Vorarlberg Bank AG directly or indirectly holds more than 50% of the voting rights or otherwise exerts a controlling influence. Of these entities, 37 are headquartered in Austria (2016: 26) and five in other countries (2016: five).

The Group's shares in an associate are accounted for using the equity method. Associates are entities that are not controlled by Hypo Vorarlberg Bank AG, but in which a stake of at least 20% and not more than 50% is held, resulting in significant influence. According to the equity method, shares in an associate are recognised in the balance sheet at cost plus changes in the Group's share in the net assets of the associate arising after the acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor subjected to a separate impairment test.

The income statement includes the Group's share in the associate's net profit or loss for the period. Changes recognised directly in the associate's equity are reported by the Group in the amount of its share and if necessary in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated in line with the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss for its shares in an associate. At each reporting date, the Group determines whether there are objective indications that the share in an associate may be impaired. If this is the case, the difference between the recoverable amount of the share in the associate and the carrying amount of the share in the associate's profit or loss is recognised through profit or loss as an impairment loss.

On the loss of significant influence, the Group measures any investment it retains in the former associate at fair value. Differences between the carrying amount of the share in the associate when significant influence is lost, the fair value of any retained interest and the disposal proceeds are recognised in the income statement.

5 (2016: 9) material Austrian associates are accounted for using the equity method.

The aggregated total assets of associated investments not measured at equity amounted to TEUR 20,287 in the past financial year (2016: TEUR 40,837). The aggregated equity of these investments amounted to TEUR 4,115 (2016: TEUR 14,520), and after-tax earnings totalled TEUR 245 (2016: TEUR 440). If these investments were included in our consolidated financial statements using the equity method and based on balance sheet data as of 31 December 2017, the measurement effect on the items "Shares in companies valued at equity" and "Equity" would be TEUR 264 (2016: TEUR 2,427). Likewise, inclusion in the income statement would have an effect of TEUR 74 (2016: TEUR 125) in "Result from equity consolidation". The three companies are not included in the consolidated financial statements due to reasons of immateriality and because data and information relevant to the financial statements were not available in due time.

The reporting date of the Bank's consolidated financial statements is the same as the reporting date of the fully consolidated companies in the consolidated financial statements with the exception of HYPO EQUITY Unternehmensbeteiligungen AG, which has a different reporting date of 30 September 2017 and prepared interim financial statements dated 30 December 2017.

Following the purchase of HYPO EQUITY Unternehmensbeteiligungen AG (hereinafter: HUBAG), the share in the company increased from 43.29% to 79.19%. The same amount of voting rights were also acquired upon acquisition of this 35.90% share. Since 14 August 2017, HUBAG has been fully consolidated within the Hypo Vorarlberg Bank AG Group. Shareholders' differing views regarding the focus of the HYPO EQUITY Group's business policy were settled by means of share purchases via "Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH and the associated reduction in the shareholder base. The company's core business focuses on providing financing to small and mid-sized enterprises (SMEs) in the form of equity and mezzanine capital. No goodwill arose due to a purchase price allocation in conjunction with the remeasurement of assets and liabilities. The fair value of the investments as at the acquisition date was TEUR 57,542; intangible assets of TEUR 31,352 were recognised. Receivables amounting to TEUR 990, cash and cash equivalents amounting to TEUR 586 and other accruals/deferrals amounting to TEUR 114 were recognised. Liabilities to banks of TEUR 50,174, other provisions of TEUR 3,513, other liabilities of TEUR 3,478, deferred tax liabilities of TEUR 1,960 and atypical silent partnerships of TEUR 1,530 were recognised as liabilities as at the acquisition date. This results in total identifiable net assets at fair value of TEUR 29,929. The non-controlling interest in the group amounted to TEUR 10,034 as at the acquisition date and relates to the minority interests of Innovacell and HYPO EQUITY Unternehmensbeteiligungen AG. Separate profit participation rights were individually taken into account to calculate the minority interests and the shareholders' equity was divided into aliquots with reference to the share capital.

The total consideration paid to acquire the shares amounted to TEUR 4,392 and was transferred in the form of cash equivalents. The fair value of the consideration transferred amounted to TEUR 9,019. The share of shareholders' equity held as at the acquisition date amounted to TEUR 7,100. There were no arrangements for contingent consideration or indemnification. The purchase price allocation that was carried out along with the remeasurement of all assets and liabilities resulted in a positive first-time consolidation effect of TEUR 8,403. This was reported under the net result from equity consolidation item and other income item in the amount of TEUR 3,776 and TEUR 4,627, respectively. The gross contractual amount of receivables was TEUR 1,172; expected cash flows amounted to TEUR 990. HYPO EQUITY Unternehmensbeteiligungen AG reported a net loss of TEUR 764 in 2017. Since the acquisition date, HUBAG has contributed TEUR 3,159 to the other income of the Group and a net loss of TEUR 605 to consolidated net income. Had the business combination taken place at the beginning of the year, Hypo Vorarlberg Bank AG's other income would also have amounted to TEUR 3,159 and the net loss for the year to TEUR 2,745.

Following the purchase of VKL IV Leasinggesellschaft mbH and VKL V Immobilien Leasinggesellschaft mbH, the shares in the companies increased from 33.33% to 100.00% in each case. The shares were purchased on 5 July 2017 with effect from 31 December 2016. The same amount of voting rights were also acquired upon acquisition of these 66.67% shares and the Group obtained control over both companies. There were no leases remaining in either company. The Group acquired the companies based on available tax loss carryforwards and did not recognise them as assets in these consolidated financial statements. There are no material effects for the Group. For this reason, no further disclosures are made in this regard.

The investment in Seestadt Bregenz Besitz- und Verwaltungsgesellschaft mbH was transferred on 24 April 2017. The company thus no longer forms part of the scope of consolidation in 2017. Deconsolidation effects amounting to TEUR 1,366 were recognised through profit or loss under the result from equity consolidation.

Vorarlberger Landesbank-Holding's consolidation obligation in accordance with IFRS and CRR also ceased to apply as of 19 July 2017. The immediate and ultimate parent company is Vorarlberger Landesbank-Holding, which is a special fund of the state of Vorarlberg. The financial statements of Hypo Vorarlberg Bank AG are not included in any other consolidated financial statements.

A full presentation of the subsidiaries and associates included in the consolidated financial statements can be found in Part VII. of the consolidated financial statements.

(3) ACCOUNTING POLICIES

The significant accounting policies applied for the preparation of these consolidated financial statements are outlined below. Unless stated otherwise, the consolidated companies applied the policies described uniformly by and consistently to the reporting periods presented. Items were recognised and measured on a going concern basis. The consolidated financial statements were prepared according to the principle of historical cost, with the exception of financial assets available for sale, financial assets and liabilities designated at fair value, trading assets, trading liabilities and derivatives. These assets and liabilities were recognised at fair value. Financial instruments in an effective hedging relationship (fair value hedge) and measured at amortised cost were adjusted for effective hedge changes. Income and expenses are recognised pro rata temporis in the period to which they relate.

The consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in shareholders' equity, the cash flow statement and the Notes. Segment reporting is included in the Notes in section E.

a) Currency translation

Assets and liabilities are measured in the currencies of the companies included in the consolidated financial statements that match their economic environments (functional currency).

These consolidated financial statements are published in EURO, which is both the functional and the reporting currency of the Group. Monetary assets and liabilities not denominated in Euro are translated into Euro at the closing rate on the reporting date.

Gains and losses from the settlement of transactions in foreign currencies are recognised in the income statement under net trading result. In the event of changes in the market value of financial instruments in foreign currencies allocated to the category AFS, the translation differences are recognised through profit or loss in the income statement under net trading result.

The translation differences from monetary assets allocated to the category AFV are recognised through profit or loss in the income statement as gains or losses from changes in fair value under net trading result.

If a company in the Group uses a functional currency that differs from the reporting currency, the assets and liabilities are translated at the mean rate of exchange on the reporting date and the income statement at the average rate for the year. Equity is translated at historical exchange rates. Resulting translation gains and losses on capital consolidation are recognised in other comprehensive income and reported separately within shareholders' equity.

ECB exchange rates on the reporting date (amount in the currency for 1 Euro):

FX-Rates	31.12.2017	31.12.2016
CHF	1.1702	1.0739
JPY	135.0100	123.4000
USD	1.1993	1.0541
PLN	4.1770	4.4103
CZK	25.5350	27.0210
GBP	0.8872	0.8562

b) Cash

The item "Cash and balances with central banks" on the balance sheet comprises cash in hand and balances payable on demand with central banks. For the purposes of the cash flow statement, cash and cash equivalents comprise the cash defined above. Cash and balances with central banks were measured at nominal value.

c) Financial Instruments

Financial instruments are accounted for on the basis of the principles of categorisation and measurement stipulated by IAS 39. An asset is recognised on the balance sheet when it is probable that the future economic benefits will flow to the entity. A liability is recognised on the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. According to IAS 39, derivatives are also financial instruments. Financial instruments are recognised for the first time when the Group becomes a party to the contract for the financial instrument. Regular way purchases or sales of a financial asset are recognised at the settlement date, i.e. the date on which the asset is delivered. The financial instruments are allocated to the categories described below at the date of their addition. The classification depends on the purpose and the Management Board's intentions, why the financial instrument was acquired and its characteristics. On initial recognition, financial instruments are measured at fair value.

Derecognition of financial assets and financial liabilities

A financial asset is derecognised when the contractual rights to receive the cash flows of the financial asset have expired or the entity has transferred its contractual right to receive the cash flows of the financial asset or assumed a contractual obligation to pay the cash flows immediately to a third party under an agreement and has thereby either transferred substantially all of the risks and rewards associated with ownership of the financial asset or has neither transferred nor retained substantially all of the risks and rewards associated with ownership of the financial asset but has transferred control over the asset.

A financial liability is derecognised when the obligation is settled, cancelled, or otherwise expired. However, expired liabilities from the savings business are not derecognised.

Categories of financial instruments

The Group classifies financial instruments into the following categories.

Classifications of financial instruments	Abbreviation
Assets held for trading	HFT
Assets voluntarily measured at fair value	AFV
Assets available for sale	AFS
Assets held to maturity	HTM
Loans and receivables	L&R
Liabilities and liabilities evidenced by certificates	LAC
Liabilities held for trading	LHFT
Liabilities voluntarily measured at fair value	LAFV

The measurement criteria for the individual categories are described below.

Measurement of financial assets	Measurement
HFT – Trading assets and derivatives	Fair value in the income statement
AFV – Assets voluntarily measured at fair value	Fair value in the income statement
AFS – Assets available for sale	Fair value changes in other comprehensive income
HTM – Assets held to maturity	Amortised cost
L&R – Loans and advances to banks and customers	Amortised cost

Measurement of financial liabilities	Measurement
LAC – Amounts owed to banks	Amortised cost
LAC – Amounts owed to customers	Amortised cost
LAC – Liabilities evidenced by certificates	Amortised cost
LAC – Subordinated capital	Amortised cost
LHFT – Trading liabilities and derivatives	Fair value in the income statement
LAFV – Liabilities voluntarily measured at fair value	Fair value in the income statement

Amortised cost

Amortised cost is the amount resulting from historical cost including premiums, discounts and incidental acquisition costs. The differences between historical cost and repayment amounts are deferred, amortised according to the effective interest method and recognised through profit or loss in net interest income. Accrued interest on receivables and liabilities as well as premiums and discounts are shown with the respective receivables and liabilities under the relevant balance sheet line item.

L&R category

Financial assets for which there is no active market are allocated to the L&R category if they are not derivatives and fixed or determinable payments can be attributed to the instruments. This applies regardless of whether the financial instruments originated within the entity or were acquired on the secondary market.

Financial instruments of the L&R category are initially recognised on the balance sheet at fair value plus directly attributable transaction costs and fees as of the settlement date. These financial instruments are subsequently measured at amortised cost. Differences between cost and the repayment amounts are written up or amortised pro rata temporis using the effective interest method and recognised through profit or loss in net interest income. Impairment is recognised through profit or loss in the income statement.

HTM category

Financial assets are assigned to the HTM category if they are not derivatives and fixed or determinable payments can be attributed to them, if an active market exists for them and if they are intended and able to be held to maturity. On every acquisition, the Group uses liquidity figures and issue planning to examine whether it is able to hold the acquired financial instrument to the end of its term.

Financial instruments of the HTM category are initially recognised on the balance sheet at fair value plus transaction costs and fees as of the settlement date. These financial instruments are subsequently measured at amortised cost. Differences between cost and the repayment amounts are written up or amortised pro rata temporis using the effective interest method and recognised through profit or loss in net interest income. Impairment is recognised through profit or loss in the income statement.

LAC category

Financial liabilities are allocated to the LAC category if they are neither derivatives nor designated at fair value.

Financial instruments of the LAC category are initially recognised on the balance sheet at fair value plus transaction costs and fees as of the settlement date. These financial instruments are subsequently measured at amortised cost. Differences between the payment amounts and the repayment amounts are written up or amortised pro rata temporis using the effective interest method and recognised through profit or loss in net interest income.

Fair value

Fair value is the amount at which an asset could be exchanged or a liability settled in an orderly transaction between market participants on the measurement date.

Active market

Whether an active market exists for financial instruments is relevant for assessing the principles used in accounting for them. A market is considered active if transactions with the asset or liability occur at a sufficient frequency and volume to provide continuous price information. According to the provisions of IFRS 13, the active market is the principal market or the most advantageous market. The principal market is the market with the largest volume and highest level of activity for the asset or liability. For listed securities, this is usually the home exchange. The most advantageous market is defined as the market that would maximise the amount received when selling the asset after transaction and transport costs or minimise the amount paid when transferring the liability. However, as we acquire/issue securities mostly via OTC markets, we must check which market is the principal market for each individual security or, if this does not exist, which market is the most advantageous market.

The Group is guided by several indicators when assessing whether there is an active market. Firstly, certain asset classes are analysed to see if current price quotations are available. Further indicators include the currency-specific minimum size (issue volume) of a security and the trade score (BVAL score) offered by Bloomberg. Bloomberg's BVAL score indicates the level of availability, the quantity of transactions and thus also the reliability of the calculated market value. Securities that are actively traded at binding prices are given a high score.

Fair values on an active market
If a market price from an active market is available, it is used. If no current price quotations are available, the price of the last transaction indicates the fair value. However, if economic circumstances have changed significantly since the date of the last transaction, appropriate methods (e.g. premiums and discounts) are used to determine the current fair value. The primary sources of information for market prices of financial instruments are stock exchange listings, but also the Bloomberg and Reuters price information systems that are important for the OTC secondary market.

Measurement models in the event of an inactive or non-existent market
The measurement models (mark to model) used include deriving the fair value from the market value of a comparable financial instrument (reference bonds) or several comparable identical financial instruments (reference portfolio) as well as present value and option pricing models. For financial instruments with no active market, the fair value is determined according to the DCF model. The expected cash flows are discounted with an interest rate appropriate to the maturity and risk. The following distinction is made in the measurement process depending on the type of financial instrument.

- **For interest-bearing instruments,** such as receivables, liabilities and interest-bearing over-the-counter securities, the fair value is determined as the present value of future cash flows. The value of this group of financial instruments is therefore determined according to the recognised DCF method, in which the expected cash flows are first discounted using the risk-free swap curve. In order to measure credit risk, the credit spread is derived from a financial instrument that is comparable in terms of duration, currency and credit rating or, if necessary, using a credit-risk-adjusted credit spread matrix. Reuters calculates rating- and duration-specific credit spreads of corporate bonds. This data is used to create a spread matrix. Spreads for intermediate levels and lower ratings are calculated by linear interpolation (or extrapolation) on the basis of Moody's WARF table. A spread premium of 180 bp is assigned for subordinated bonds with a residual term of up to three years and 240 bp for longer residual terms. If the current of a counterparty is unknown, the last known credit spread is used. These derivations and calculations are based on maximum input factors observable on the market. If there are no sufficiently usable input factors on the market, the calculation is based on internally measured input factors. These include internal ratings and internal probabilities of default. In the case of liabilities, own credit risk is measured using reference portfolios. The financial instruments to be measured are assigned to the categories of public placements, private placements and retail issues depending on their placement type. Furthermore, they are divided into senior unsecured, subordinated and covered bonds. Depending on the currency and remaining term, own credit risk is now derived taking into account the internal rating from the available reference portfolios with the same characteristics. An adjustment is made for private placements in order to accommodate the current issue level of private placements compared to public placements. If there is no market data for certain remaining terms, the calculation uses linear interpolation or extrapolation of market data.

- **For equity securities,** the following hierarchy of valuation techniques may be derived for reliable fair value measurement:

  1. Market approach
     Calculation based on derivation from comparable input factors observable on the market
  2. Income approach
     Discounted cash flow (DCF) method based on the entity/equity approach
  3. Cost approach
     Measurement at cost if fair value cannot be reliably determined

- **For derivatives,** fair value is determined using input factors observable on the market, such as yield curves and exchange rates. Specifically, derivatives are discounted – especially in hedge accounting – using the OIS yield curve and the swap curve customary on the interbank market. With regard to accounting for credit spreads, each counterparty's credit spread is measured on a net basis, provided that a corresponding netting agreement exists and in consideration of cash and/or securities collateral. Input factors observable on the market, such as CDS spreads, are also taken into account when determining credit spreads. If no CDS spread is available for our counterparty, the credit spread is measured using internal probabilities of default.

HFT category
This balance sheet item contains securities and derivative financial instruments with a positive market value acquired for the purpose of generating short-term profits from market price movements or realising a trade margin. IT also includes the positive market value of derivative financial instruments of the banking book and of derivative financial instruments relating to underlying transactions of the fair value option. As the Group has applied hedge accounting only since the 2010 financial year, derivatives concluded previously that do not constitute hedging instruments in line with IAS 39 and have positive market values are assigned to this category even though there is no trading intention, as these derivatives were mainly concluded to hedge market price risks. Derivative financial instruments in the trading assets are recognised as of the trade date. Other financial instruments are carried as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement.

They are measured at fair value. Gains/losses on remeasurement and realised gains/losses are recognised in the net trading result. If there are published price quotations on an active market, these are used as fair value. Otherwise, fair value is determined using recognised measurement methods. Interest income and interest expenses from trading assets and derivatives are recognised in net interest income.

AFV category
Financial assets are voluntarily recognised at fair value if the financial instrument is in an economic hedging relationship with a derivative financial instrument. Recognising the derivative hedge at fair value would create an accounting mismatch between hedged item and hedge on the balance sheet and income statement. Voluntary recognition at fair value compensates for this accounting mismatch. Likewise, financial assets are voluntarily recognised at fair value if the financial instrument is part of a portfolio about which management receives regular market value reporting in order to monitor and manage the portfolio or the financial instrument contains one or more separable embedded derivatives. Financial instruments can be assigned to this category upon acquisition only.

Financial assets at fair value are securities and loans whose yield curves are switched from fixed or structured interest payments to variable interest conditions by way of interest rate swaps. Financial instruments of the AFV category are recognised and measured at fair value on the balance sheet. These financial instruments are carried on the balance sheet at fair value as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are reported through profit and loss in the net trading result. Impairment losses for the AFV category are included implicitly in the fair value of the financial instrument and are therefore not dealt with separately.

AFS category
In this balance sheet item, the Group reports financial instruments that could not be assigned to any other category. Financial instruments of the AFS category are recognised and measured at fair value on the balance sheet. These financial instruments are carried on the balance sheet at fair value plus transaction costs as of the settlement date. Changes in fair value are reported in other comprehensive income in the AFS remeasurement reserve. Impairment is recognised through profit or loss in the income statement. Reversals of impairment on ownership interest are reported directly in the AFS remeasurement reserve. Reversals of impairment on debt securities are reported up to the original amortised cost in the income statement.

If the financial asset is sold, the gains/losses on remeasurement accumulated in the AFS remeasurement reserve are reversed and transferred to the net result from other financial instruments. If no reliable market value is available for equity instruments of this category, they are measured at historical cost.

LHFT category
This balance sheet item contains derivative financial instruments with a negative fair value acquired for the purpose of generating short-term profits from market price movements or realising a trade margin. The negative fair value of derivative financial instruments of the banking book is also reported here. Gains/losses on remeasurement and realised gains/losses are recognised in the net trading result. Derivative financial instruments in the trading liabilities are recognised as of the trade date. Any other financial instruments are carried as of the settlement date. In addition, interest rate derivatives relating to underlying transactions of the fair value option are reported here. Interest expenses and interest income from trading liabilities and derivatives are recognised in net interest income.

LAFV category
Financial liabilities are voluntarily recognised at fair value if the financial instrument is in a hedging relationship with a derivative financial instrument. Recognising the derivative hedge at fair value would create an accounting mismatch between hedged item and hedge on the balance sheet and income statement. Voluntary recognition at fair value compensates for this accounting mismatch. Financial liabilities are also voluntarily recognised at fair value if the financial instrument contains one or more separable embedded derivatives. Financial instruments can be assigned to this category upon acquisition only.

The financial liabilities primarily relate to issues and time deposits from institutional investors, whose interest rates were fixed for the term. Interest rate swaps were concluded to hedge resulting interest rate risk. New issues containing embedded derivatives, fixed rate issues and time deposits are assigned to this category upon acquisition to avoid an accounting mismatch arising from the hedging derivative.

Financial instruments of the LAFV category are recognised and measured at fair value on the balance sheet. These financial instruments are carried on the balance sheet at fair value as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are reported through profit and loss in the net trading result or in the result from change in own credit risk. The interest income and interest expenses are reported in net interest income.

d) Financial guarantees
According to IAS 39, a financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The obligation from a financial guarantee is recognised as soon as the issuer becomes a party to the contract, i.e. on the date the guarantee offer is accepted. Initial measurement is at fair value as of the recognition date. Generally, the fair value of a financial guarantee on inception is regularly zero, as the value of the agreed premium under fair market contracts equals the value of the obligation for the guarantee. If the guarantee premium is collected in full at the inception of the contract, the premium is initially recognised as a liability and distributed over the term pro rata temporis. If regular premiums are paid from the guarantee, these are deferred and reported in commission income. If there are indications of a deterioration of the guarantee holder's credit rating, provisions are recognised equalling the expected utilisation.

e) Embedded derivatives
Embedded derivatives – derivatives that are part of and linked to a primary financial instrument – are separated from the primary financial instrument and recognised and measured separately like a standalone derivative at market value (fair value) if the characteristics and risks of the embedded derivative are not closely linked to those of the host contract and the host contract has not been assigned to the HFT or AFV categories. Changes in measurement are recognised through profit or loss in the income statement. In contrast, the host contract is recognised and measured according to the relevant category of the financial instrument. The Group holds financial instruments with embedded derivatives in Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft. For residential construction financing, the Bank offers its customers the "Zinslimitkredit" loan product, in which an optional interest cap of 5% or 6% can be agreed for terms of 12 or 20 years respectively. This embedded derivative is closely linked with the hedged item, so they are not separated. The Bank also has embedded derivatives for bonds with conversion options, inflation, fund and equity-linked income payments, CMS steepeners, CMS floaters, reverse floaters, multi-tranches and PRDCs. These securities are voluntarily designated at fair value, as the embedded structures were hedged with derivative financial instruments.

f) Repurchase and securities lending agreements
Repurchase and securities lending agreements Repo agreements are a combination of regular way purchases or regular way sales of securities with a simultaneous agreement to forward sale or repurchase with the same counterparty. The securities sold in repo agreements (regular way sales) continue to be recognised and measured as securities in the pledgor's balance sheet, as all material risks and rewards remain with the pledgor. As pledgor, we thus continue to bear the credit, market price and liquidity risk of the securities sold in repo agreements. Inflows of liquidity from repo agreements are shown on the balance sheet as amounts owed either to banks or to customers depending on the counterparty. Agreed interest payments are recognised as interest expenses according to maturity. Outflows of liquidity resulting from reverse repos are recognised as loans and advances to banks or customers and measured accordingly. The securities received (regular way purchase) underlying the money transaction are not shown or measured on the balance sheet. Agreed interest from reverse repos is recognised as interest income according to maturity. Receivables from reverse repos and liabilities from repos with the same counterparty are not offset. Is very likely that securities are collateralised on a net basis, so in the case of reverse repos and repos with the same counterparty, the securities sold or received in repo agreements collateralise the net exposure arising from reverse repos and repos.

We account for securities lending transactions in the same way as securities from genuine repurchase agreements. Lent securities remain in our securities portfolio and are measured according to the rules of IAS 39. Borrowed securities are not recognised or measured. We continue to show collateral provided by us for securities lending transactions as loans and advances on the balance sheet. We recognise securities received from securities lending transactions as liabilities.

As a rule, the Group generally uses internationally recognised clearing houses such as EUREX Clearing AG or the Swiss National Bank when concluding repurchase agreements. Settlement is standardised and secured to the highest possible degree, so no delivery risk is anticipated on the par t of the counterparty. Settlement very often takes the form of a triparty repo agreement.

g) Impairment of financial assets
We account for specific counterparty default risks in the lending business by recognising specific and portfolio valuation allowances.

Identifiable risks from the lending business are covered by specific valuation allowances and global valuation allowances. In addition, portfolio valuation allowances are recognised for risks incurred but not yet identified for groups of financial assets with similar default risk profiles, the amounts of which are determined on the basis of Basel II parameters (anticipated loss rates, probabilities of default). The loss identification period (LIP) is applied as a correction factor for the probability of default. The time value of money is also factored into the loss given default (LGD). The recognised loan loss provision is netted against the underlying asset. Potential impairment is assumed in the event of the following indicators: payment default over a certain period, the introduction of coercive measures, pending insolvency or over-indebtedness, filing or opening of bankruptcy proceedings or the failure of restructuring measures. Impairment is required if the expected recoverable amount of a financial asset is lower than the respective carrying amount, i.e. if the loan is expected to be (partially) unrecoverable. If this is the case, the loss for financial assets carried at amortised cost must be recognised through profit or loss either via indirect impairment (loan loss provision) or a direct write-down. The recoverable amount is given by the present value based on the original effective interest rate from the financial asset. Unrecoverable loans are written down directly through profit or loss in the appropriate amount; amounts received on loans already written down are recognised through profit or loss.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event (or these loss events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost
If there is objective evidence of impairment, the amount of the loss is given by the difference between the carrying amount of the asset and the present value of the estimated future cash flows. The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows resulting from realisation less costs for obtaining and selling the collateral.

For loans and receivables, impairment is netted with the underlying receivable in the respective balance sheet item. The loss (allocation) is reported in the income statement under loan loss provisions. Loan loss provisions include specific valuation allowances for loans and receivables for which there is objective evidence of impairment. Loan loss provisions also include portfolio valuation allowances for which there is no objective evidence of impairment when considered individually. In the case of bonds in the HTM and L&R categories, impairment is recognised directly on the balance sheet by reducing the corresponding asset items and in the income statement under net result from other financial instruments. Interest income from individually impaired assets is deferred further on the basis of the reduced carrying amount, applying the interest rate used to discount the future cash flows for the purpose of calculating the impairment loss. This interest income is included under interest and similar income.

Loans are derecognised together with the associated impairment if there is no realistic prospect of future recovery and all collateral has been claimed and utilised. If the impairment increases or decreases in a subsequent period due to an event occurring after the recognition of impairment, the allowance account previously recognised for loans and receivables is increased or decreased by the amount of the difference. In the case of bonds in the HTM and L&R categories, the carrying amount is increased or decreased directly on the balance sheet. Reductions in impairment are reported in the income statement in the same item as the impairment loss itself.

Available-for-sale financial assets
Debt instruments classified as available for sale are reviewed individually to determine whether there is objective evidence of impairment based on the same criteria as for financial assets carried at amortised cost. However, the impairment amount recognised is the cumulative loss from the difference between amortised cost and the current fair value less any impairment previously recognised through profit or loss. When recognising impairment, all losses previously recognised in other comprehensive income under remeasurement reserve are reclassified to the income statement under net result from other financial instruments. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to a loan event occurring after the impairment was recognised in profit or loss, the impairment shall be reversed, with the amount of the reversal recognised in profit or loss under net result from other financial instruments. Impairment losses and their reversals are recognised directly against the asset on the balance sheet. For equity instruments classified as available for sale, a significant or prolonged decline in fair value to below cost is also considered objective evidence. If there is evidence of impairment, the cumulative difference between cost and the current fair value less any impairment previously recognised through profit or loss is reclassified from the remeasurement reserve in other comprehensive income to the net result from other financial instruments in the income statement. Impairment losses on equity instruments cannot be reversed via the income statement. Increases in fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the asset on the balance sheet.

Off-balance sheet loans
Risk provisions for off-balance sheet loans, such as warranties, guarantees and other loan commitments, are included under provisions, and the associated expense is reported through profit and loss under loan loss provisions.

h) Hedge accounting
The Group uses derivative instruments to hedge against currency and interest rate risks, such as interest rate swaps, currency swaps and cross-currency swaps. At the beginning of the hedge relationship, the Group explicitly defines the relationship between the hedged transaction and the hedging instrument, including the type of risks being hedged against, the goal and strategy for execution and the method used to assess the effectiveness of the hedging instrument. In addition, at the beginning of the hedge relationship the hedge is expected to be highly effective in terms of compensating for risks from changes in the hedged transaction. A hedging relationship is considered highly effective if changes in the fair value or cash flow attributable to the hedged risk for the period for which the hedging relationship was determined can be expected to be offset within a range of 80% to 125%. Detailed conditions for individual hedging relationships used are set internally.

Fair Value Hedges
Fair value hedges are employed to reduce market value risk. For designated and qualified fair value hedges, the change in the fair value of the hedging derivative is recognised through profit and loss under net result on hedge accounting. In addition, the carrying amount of the hedged item is adjusted through profit or loss for the gain or loss that can be attributed to the hedged risk. Fair value hedges are primarily used to hedge interest rate risks. The main items hedged are therefore financial instruments with fixed and structured interest in the form of acquired and issued securities, loans and time deposits. In individual cases, interest rate and currency risks are hedged together.

If a hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated. In this case, the adjustment of the carrying amount of a hedged financial instrument is reversed through profit and loss under net result on hedge accounting until the maturity of the financial instrument.

i) Offsetting financial instruments
The Group has not offset any financial instruments in these consolidated financial statements as it does not intend to settle receivables and liabilities on a net basis. In connection with derivatives, in particular, the Group has concluded master netting agreements with the aim of bringing about settlement on a net basis in the event of a counterparty default, taking into account any collateral delivered or pledged. More detailed disclosures on offsetting financial instruments are shown in Note (58).

j) Leases
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. We classify a finance lease as a lease that transfers substantially all the risks and rewards incidental to ownership of the asset. All other leases in our Group are classified as operating leases.

Accounting as lessor
Leases are assessed according to whether the risks and rewards of ownership of the leased item are borne by the lessor or by the lessee and recognised accordingly as a finance or operating lease. Leased assets attributable to the lessee (finance leases) are shown at net investment in the lease (present value) under loans and advances to customers (Note 17). The net investment in the lease comprises the present value of the contractually agreed payments taking into account any residual values. Finance lease income is shown as interest income (Note 5). In the Group, receivables from finance leases under which the leased asset is attributable to the lessee primarily relate to real estate properties. In the case of operating leases, the leased assets are reported under property, plant and equipment or as property under investment property and depreciated according to the applicable principles for these assets. Lease income is recognised on a straight-line basis over the lease term. Lease payments received in the period and depreciation are recognised under other income and other expenses. Leases in which the Group acts as lessor are classified almost exclusively as finance leases.

Accounting as lessee
The Group has not concluded any finance leases. As a lessee of real estate, the Group reports operating leases and recognises the full lease payments made as rental expense under administrative expenses. There were no sale-and-leaseback transactions in the Group in 2017.

k) Investment property
On initial recognition, investment property is measured at cost plus ancillary costs. Investment property is subsequently carried at cost less cumulative depreciation and/or cumulative impairment losses. Investment property includes properties held to earn rental income and/or for capital appreciation, not for providing services, for administrative purposes or for sale in the ordinary course of business. Leased properties are also reported under this balance sheet item if the leased assets are attributable to the lessor (operating leases). Lease income is recognised on a straight-line basis over the term of the contract.

A sworn and court-certified appraiser employed by Hypo Immobilien & Leasing GmbH regularly draws up valuation appraisals for investment property. The appraiser uses the income capitalisation approach, the market approach and other approaches to value these assets. The appraiser then compares the ascertained value with the real estate market and makes a further adjustment if necessary. For larger properties, appraisals are also prepared by independent third parties.

Rental income is recognised under other income. Depreciation and maintenance expenses for these properties are reported under other expenses. The balance sheet item investment property includes buildings with finite useful lives. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Investment property	25 - 50

No contingent rentals were recognised as income in the reporting period. The statement of operating expenses for investment property for which no rental income was generated in the reporting period results in disproportionately high expenses without increasing the informational value of the financial statements with regard to the Group's core business.

l) Intangible assets
Intangible assets are recognised at cost on initial recognition and subsequently carried at cost less cumulative amortisation and cumulative impairment. The cost of intangible assets acquired as part of a business combination is equal to their fair value as at the acquisition date. Intangible assets are recognised only if it is probable that the expected benefits will flow to the enterprise, and the cost can be determined reliably.

Intangible assets with finite useful lives are amortised on a straight-line basis over their economic lives and tested for potential impairment. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period. Assets with indefinite useful lives, for example capitalised development projects in progress, are not subject to regular amortisation but are tested annually for impairment.

The Group's intangible assets balance sheet item includes acquired software and capitalised development costs for a biotechnology project in the area of pharmaceutical research. The table below shows the useful lives of intangible assets with limited useful lives.

Typical operational useful life	in years
Standard software	3
Other software	4
Specialist software	10

Present values are calculated annually using the risk-adjusted DCF method for the purpose of testing the development projects in progress for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level for which separate cash flows can be identified (cash-generating units). The impairment of capitalised development costs largely depends on the results of the clinical studies in progress at the respective time. Based on the results of the studies to date, the management concludes that it can be expected with a probability commensurate with the development risk that it will be possible to market the developed products in the foreseeable future. The estimated cash flows after tax based on the long-term business model of the company as well as the management's assessments with respect to the relevant projects' probability of success (risk adjustment) are used to determine the value in use. The anticipated cash flows are based on the planning for the period from 2018 to 2022. The longer the forecast horizon, the more significant the rise in uncertainty associated with the planning; in the view of the Managing Board, sufficient account has been taken of this by discounting the assumed success rate by 50%. The risk discount selected lies within the statistical mean for the probability of marketing authorisation, which is stated in the literature to be in the order of 30% (clinical phase II) and 70% (clinical phase III). The discount rate of 11.73% per year is calculated using the WACC method. The cost of equity is based on a risk-free interest rate of 1.37%, a market risk premium of 7%, a beta of 1.20 and equity financing of 100%.

m) Property, plant and equipment

Property, plant and equipment is carried at cost less cumulative depreciation and/or cumulative impairment losses. Depreciation is applied on a straight-line basis over the estimated useful life. Physical wear and tear, technical obsolescence and legal and contractual restrictions are considered when determining the useful life of property, plant and equipment. Land is not depreciated. Cost includes the costs for replacing parts of an item of property, plant and equipment and the borrowing costs for major, long-term construction projects if the recognition criteria are met. As of the reporting date and in the previous-year period, there were no liabilities or obligations from asset purchases or the construction of plant. There were likewise no restrictions on title, and no items of property, plant and equipment were pledged as security for liabilities. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Buildings	25 - 50
Operational and office equipment	5 - 10
Construction on leased premises	10
IT hardware	3

In addition, impairment is recognised if the recoverable amount is lower than the carrying amount of the asset. Property, plant and equipment is derecognised either on disposal or when no more economic benefit is expected from the further use or sale of the recognised asset. Gains or losses arising from the disposal of the asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised through profit and loss in the period under other income or other expenses in the income statement.

n) Impairment of non-financial assets

At each reporting date, the Group determines whether there are indications of impairment of non-financial assets. If there are such indications, or an annual impairment test is required for an asset, the Group estimates the recoverable amount of the respective asset. The recoverable amount of an asset is the higher of the asset or cash-generating unit's fair value less costs to sell and the value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or cash-generating unit exceeds the recoverable amount, the asset is impaired and written down to its recoverable amount. To determine value in use, the estimated future cash flows are discounted to their present value on the basis of a pre-tax discount rate that reflects current market expectations regarding the time value of money and the specific risks of the asset. An appropriate measurement model is used to determine the fair value less costs to sell.

The Group bases its impairment testing on detailed budgets and forecasts prepared separately for each of its cash-generating units to which individual assets are attributable. Such budgets and forecasts usually cover a period of five years. Impairment losses of continuing operations are recognised through profit or loss in the expense categories corresponding to the impaired asset's function in the Group. This does not apply to previously remeasured assets if the increases in value resulting from remeasurement were recognised in other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount from a preceding remeasurement. Non-financial assets are tested for impairment once a year (as of 31 December). A test is also performed when circumstances indicate that the value could be impaired.

o) Tax assets

Current taxes
Current tax assets and liabilities are calculated on the basis of the tax provisions of each country using current tax rates, which determine the reimbursement from and payment to the respective tax authorities. Assets and liabilities are recognised only for expected claims against and obligations to the tax authorities. Current tax assets and liabilities are set off only if the Group has a legally enforceable right to set off the reported amounts and actually intends to settle on a net basis. This occurs in the Group in particular in connection with group taxation. Performance-based current tax expenses are recognised in the Group's income statement under taxes on income.

Deferred taxes
Deferred taxes are recognised and measured according to the balance-sheet-based liability method. The measurement for each taxable entity uses the tax rates applicable by law in the taxable period. Deferred taxes are not discounted. The effects of the recognition or reversal of deferred taxes are also including in the Group's income statement under taxes on income, unless deferred tax assets and liabilities relate to items measured in other comprehensive income. In this case, the deferred taxes are recognised or reversed in other comprehensive income.

Deferred tax assets/liabilities reflect the potential tax benefits/expenses from temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet according to IFRS and the tax base according to local tax provisions of Group companies.

Deferred tax assets are only recognised if there are sufficient deferred tax liabilities within the same tax entity or it is sufficiently likely that taxable income will be generated in the same tax entity in the future. This also applies to the recognition of deferred tax assets on tax loss carryforwards.

Deferred tax liabilities reflect the potential tax expenses from temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet according to IFRS and the tax base according to local tax provisions of Group companies.

p) Non-current assets available for sale and liabilities relating to assets available for sale
Non-current assets are classified as available for sale if they can be sold in their present condition and the sale is probable with 12 months of the classification. Assets available for sale are reported in the balance sheet item "non-current assets available for sale". Non-current assets classified as available for sale are measured at the lower of the carrying amount and fair value less costs to sell.

The item non-current assets available for sale includes properties that were subject to finance leases. These finance leases were terminated or cancelled prematurely. This item also includes leased assets that are to be sold after the expiry of the lease. If there is a realistic possibility of a sale within 12 months, the Group assigns the properties to this balance sheet item. No regular depreciation is recognised for these assets, but impairment is recognised if the fair value less costs to sell falls below the carrying amount. These properties are sold by Hypo Immobilien & Leasing GmbH and the leasing companies. If a sale is not possible in the medium term, the properties are usually rented out or let. In these cases, they are reclassified to investment property. If neither sale within 12 months nor medium-term rental appear realistic, they are reclassified to the other assets item of the balance sheet.

A disposal group is a group of assets, possibly with associated liabilities, that an entity intends to sell in a single transaction. The measurement basis and the criteria for the classification as available for sale is applied to the entire Group. Assets that are part of a disposal group are reported on the balance sheet under "non-current assets available for sale". Liabilities relating to assets available for sale that are part of a disposal group are reported on the balance sheet under "liabilities relating to non-current assets available for sale". There are no liabilities relating to non-current assets available for sale.

All income and expenses relating to assets available for sale are recognised in the income statement under other income or other expenses.

q) Provisions
A provision is recognised if the Group has a present legal or constructive obligation as a result off a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. We therefore recognise provisions for uncertain obligations to third parties and onerous contracts in the amount of the expected utilisation. The amount recognised for a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. Provisions are recognised at present value where the effect of the time value of money is material. Provisions also include credit risk provisions for off-balance-sheet transactions (especially warranties and guarantees) and provisions for litigation. Expenses or income from the reversal of credit risk provisions for off-balance-sheet items are recognised in the income statement under loan loss provisions. All other expenses or income in connection with provisions are recognised in administrative expenses and under other expenses.

The Group's social capital is also shown under provisions. Social capital means provisions for defined-benefit and defined-contribution plans for employees. Social capital includes provisions for pensions, severance, anniversary bonuses and disability risk. The liability recognised from a defined-benefit plan equals the present value of the obligation less the fair value of the plan assets out of which the obligations are to be settled directly. The present value of the obligation exceeds the fair value of the plan assets in all plans.

Pensions
At Hypo Vorarlberg Bank AG 12 (2016: 12) pensioners and their survivingdependants are entitled to a defined-benefit bank pension. This is a final salary plan based on a works agreement. 5 (2016: 10) active employees are entitled to a disability pension. A defined-contribution pension agreement has been concluded with the active employees entitled to a pension. On the basis of the statutory requirement according to the Swiss Occupational Pensions Act (BVG), 18 employees (2016: 20) of the St. Gallen branch are entitled to a defined-benefit pension. The Group and the employees make contributions to the BVG collective foundation Swiss Life, which is managed by Swiss Life AG. There is no other constructive obligation from normal commercial practice.

Severance
Austrian labour law previously required a compensation payment to be made to employees on termination of their employment relationship under certain circumstances. Severance entitlements are governed by Section 23 of the Austrian Salaried Employees Act. This includes in particular the termination of employment due to retirement. All employees who joined the company before 1 January 2003 are entitled to this severance. Depending on the length of service, the maximum severance entitlement is one year's salary, calculated on the basis of final salary. This is a defined-benefit plan. The Group has recognised a severance provision for these entitlements.

Anniversary bonuses
After 25 and 40 years of service, every employee is entitled to an anniversary bonus of one and two months' salary respectively. The entitlement to an anniversary bonus is based on a collective agreement, which stipulates both the conditions and the amount of the entitlement.

The agreed payments to a pension fund for defined-contribution plans are expensed on an ongoing basis. The statutory "new severance" payment is likewise expensed on an ongoing basis. There are no further obligations.

r) Trust activities
Trust activities that involve the holding or placing of assets on behalf of third parties are not reported on the balance sheet. Commission payments for such activities are included in the income statement within net fee and commission income.

s) Recognition of income and expenses and description of income statement items
Income is recognised if it is probable that the economic benefit will flow to the company and the income can be measured reliably. The following designations and criteria are used for the recognition of income in the items of the income statement:

Net interest income
Interest income is recognised on an accrual basis as long as the interest is deemed collectible. Income that primarily constitutes consideration for the use of capital (usually interest or similar calculation according to timing or amount of the receivable) is allocated to similar income. Interest expenses are recognised in the same way as interest income. Differences arising from the sale and issue of securities are recognised in the income statement according to the effective interest method. Similar income is recognised in the income statement only once the legal right to receive payment is established. Dividends are recognised in the income statement only after the legal right to receive payment of the dividend is established. The Group does not incur any significant negative interest from conventional financing and deposit products based on statutory provisions. Negative interest is offset against interest income and interest expenses under the usual item. Negative interest amounts are applied in relation to derivatives. As derivatives that are not in a hedging relationship are generally used to hedge interest rate risks, the interest from derivatives is offset against that of the underlying transactions under the relevant interest item in order to take economic hedging into account when reporting net interest income.

Loan loss provisions
This item shows the recognition and reversal of specific valuation allowances and portfolio valuation allowances for balance-sheet and off-balance-sheet lending transactions. Direct write-downs of loans and advances to banks and customers and amounts received on loans and advances to banks and customers already written down are also reported in this item.

Net fee and commission income
Income from the service business and expenses attributable to this income are reported under net fee and commission income. This item contains income and expenses primarily in connection with fees and commissions from payment transactions, securities business, lending business, insurance and real estate brokerage business and foreign exchange business. Lending fees relating to new loans are not recognised in net fee and commission income but instead in interest income as part of the effective interest rate.

Net result on hedge accounting
This item firstly includes the full fair value changes of hedging instruments that meet the criteria for hedge accounting. Secondly, this item includes carrying amount adjustments from the hedged item. If a hedge no longer meets the criteria according to IAS 39, the further value changes of hedging instruments are recognised through profit or loss in the net trading result.

Net trading result
The net trading result comprises three components:
- Result from trading in securities, promissory note loans, – precious metals and derivative instruments
- Result from the measurement of derivative financial instruments that do not belong to the trading portfolio and are not in a hedging relationship according to IAS 39
- Result from the use of the fair value option

The fair values of trading assets and liabilities are measured on the basis of market prices. The fair values of non-listed products are measured according to the present value method or using suitable measurement models. As well as realised gains/losses, the net trading result also includes gains/losses on the remeasurement of trading activities. It also includes ineffective portions from hedging and currency gains and losses. The net trading result does not include interest and similar income or refinancing costs, which are shown in net interest income. The result from the use of the fair value option does not include the result from change in own credit risk, which is recognised under a separate item.

Net result from other financial instruments
The net result from other financial instruments includes gains/losses on disposal and remeasurement of securities in the financial assets portfolio, investments and shares in non-consolidated subsidiaries. The net result from other financial instruments also contains the realised gain and loss on disposal and the measurement of financial instruments of the HTM, L&R and LAC categories. It does not include gains and losses of the HFT, AFV, LHFT, or LAFV categories, which are recognised in the net trading result. The net result from L&R financial assets includes write-ups, write-downs and realised gains and losses that arise from securities and are not part of our primary customer business.

Administrative expenses
Administrative expenses include the following expenses accrued in the reporting period: staff costs, material expenses and depreciation, amortisation and impairment on the balance sheet items property, plant and equipment and intangible assets.

The staff costs include wages and salaries, bonuses, statutory and voluntary social benefits, employees taxes and levies. Expenses and income from severance, pension and service anniversary provisions are also partially included in this item. In addition to IT expenses, material expenses also include building expenses, advertising and PR expenses, legal and consulting expenses, staff development expenses (training, recruiting) and other expenses required for running an office. The depreciation and impairment relate to land, developed land and buildings used by the Group itself, operating and office equipment and movables let under operating leases.

Other income
This item comprises income that is not directly attributable to the Bank's operating activities. This included rental income from leased properties, gains on the disposal of assets, other income from leasing business and operating cost income. Income from operating leases is recognised on a straight-line basis over the terms of the leases.

Other expenses
This item comprises expenses that are not directly attributable to the Bank's operating activities. These include depreciation of properties let, losses on the disposal of assets, expenses from leasing business and operating cost expenses. This item also contains other tax expenses apart from taxes on income and expenses from loss events or operating risk.

Operating result before change in own credit risk
This subtotal is based on earnings before taxes less the result from change in own credit risk. It represents the material keyfigures for the Group as regards business operations before taxes, as the measurement of own liabilities on the basis of the rating is not directly related to income from the operating business. This was clearly demonstrated by the market turbulence in the wake of the HETA moratorium, in particular.

Result from change in own credit risk
The measurement effect in respect of financial liabilities voluntarily measured at fair value, which is attributable to the change in own credit risk, is reported under this item. Although this item is part of the net trading result, due to the relatively high volume of financial instruments it is subject to large fluctuations that are not linked to business operations. As the Group intends to service the issues at the repayment amount and, unlike assets, the liabilities cannot be sold, measuring liabilities on the basis of the rating distorts the informational value provided by the business operations of the Group. This effect is also acknowledged in IFRS 9, with the result that measurement effects of this kind are to be recognised directly in other comprehensive income as of 1 January 2018.

Taxes on income
This item includes all income-based taxes broken down into current tax expenses, deferred tax expenses and taxes from previous periods.

t) Material judgements, assumptions and estimates
To prepare the consolidated financial statements, the management has to make estimates and assumptions affecting disclosures on the balance sheet and in the notes and the recognition of income and expenses during the reporting period. They relate primarily to estimating the value of assets, determining standard economic lives for property, plant and equipment throughout the Group and recognising and measuring provisions. The estimates and judgements are based on assumptions reflecting the latest information available. Expected future business development is estimated on the basis of the prevailing circumstances as of the date the consolidated financial statements are prepared and realistic assumptions about the future development of the global and industry-specific environment. Developments in these conditions that deviate from these assumptions and lie outside of the management's sphere of influence can cause differences in actual amounts compared to the original estimates. Where substantial estimates were required, the assumptions made are described below.

Impairment on loans and advances to banks and customers

The Group inspects the credit portfolio for impairment at least once a quarter. It assesses whether identifiable events reduce the expected future cash flows in the credit portfolio. Indicators of impairment include non-compliance with due dates and agreements, the monitoring and analysis of customers' financial circumstances and rating changes. The management takes assumptions based on historical default probabilities for similar credit portfolios into account when estimating future cash flows. A 1% increase in the impairment ratio (ratio of risk provision to exposure) with respect to the underlying exposure would increase the risk provision by TEUR 898 (2016: TEUR 1,044). A 1% reduction in the impairment ratio with respect to the underlying exposure would reduce the risk provision by TEUR 898 (2016: TEUR 1,044). Allocations to the portfolio valuation allowance for defaults that have already occurred but have not been recognised are made on the basis of historical probabilities of default, expected loss rates and the correction factor of the loss identification period (LIP). A 1% linear and relative shift of the probabilities of default would result in an increase or decrease of TEUR 136 (2016: TEUR 130). Overall, a 1% increase in the probabilities of default would change the expected loss from unimpaired receivables by TEUR 272 overall (2016: TEUR 260). An increase in the LIP factor of 30 days would increase the portfolio value allowance by TEUR 2,266 (2016: TEUR 2,166). The development of credit risk provisions is shown in Note (17). The effects on the income statement are shown in Note (6). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 9,781,418 (2016: TEUR 9,625,287).

Impairment on financial instruments available for sale

With regard to these financial instruments, the Group distinguishes between debt and equity securities. Debt securities are impaired when events reduce the expected future cash flows. Equity securities are impaired when the market value of the financial instrument is lower than cost by more than a fifth in the last six months before the reporting date or by more than a tenth in the last twelve months before the reporting date. When deciding whether impairment is required, the Group takes the normal volatility of share prices into account. If all market value fluctuations were considered material or permanent, this would increase the remeasurement reserve by TEUR 3,111 (2016: TEUR 2,254) and reduce the net result from other financial instruments by TEUR 3,111 (2016: TEUR 2,254). The effects arising from the assumptions and estimates can be seen in shareholders' equity in Note (42) and in the net result from other financial instruments in Note (10). They have no effect on the carrying amounts of these financial instruments. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 686,598 (2016: TEUR 769,093).

Impairment on financial instruments held to maturity

The Group tests these financial instruments for impairment on an ongoing basis, including by monitoring rating changes and price performance. For example, if the rating deteriorates, the price performance of the financial instrument is examined. Impairment is recognised if the price deteriorates on the basis of the rating. If all differences between market value and carrying amount were deemed permanent impairment, this would reduce the net result from other financial instruments by TEUR 1,855 (2016: TEUR 1,787). The carrying amounts on which these assumptions and estimates are based are shown in Note (22). Effects on the income statement are reported in Note (10). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 1,101,503 (2016: TEUR 1,103,893).

Fair values of financial instruments measured at fair value in measurement level 3

Many of the financial instruments measured at fair value are not traded on an active market. These fair values are determined using measurement models. When using measurement models, the Group refers to the prices of observable, current market transactions with similar instruments and, when available, uses observable market data in the measurement models. See Note (57) for information on the sensitivities of the measurement models used. With regard to the income statement, these assumptions and estimates affect the net trading result in Note (9). With regard to the measurement of OTC derivatives, credit risk is also taken into account when calculating fair value in the form of a credit value adjustment (CVA) or a debt value adjustment (DVA). In the event of netting agreements, CVAs and DVAs are calculated on the basis of the net position for each counterparty including collateral, probabilities of default and credit default swap spreads (CDS spreads) observable on the market. This is an accounting-related change in estimate. The effect of the approach of credit risk for financial assets and derivatives amounts to TEUR 1,251 (2016: TEUR -1,273) and was recorded in the net trading result. The effect from the approach of credit risk for financial liabilities amounted to TEUR -14,223 (2016: TEUR -10,970) and was the recorded in the result from change in own credit risk. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 299,061 (2016: TEUR 272,265) and of the liabilities TEUR 914,620 (2016: TEUR 1,738,203).

Income taxes

With regard income taxes, the Group is subject to several tax authorities. Material estimates are used in the calculation of the tax provision in Note (38). The taxable income for each company is calculated on the basis of the local commercial result by reconciling financial and tax accounting. In addition, expected additional tax obligations in connection with ongoing or announced tax audits are recognised in the tax provision. After a completed tax audit, the difference between the expected and the actual payment of back taxes is recognised through profit or loss in the income statement under income taxes from previous periods and deferred taxes. Judgements are required to determine the amount of deferred tax assets to be recognised based on the probable timing and amount of future taxable income and future tax planning strategies. Tax assets are recognised on the basis of budgetary accounting over a period of five years. Disclosures relating to deferred taxes are provided in Notes (27) and (39). The effects on the income statement are shown in Note (14) as well as those of the Other Result on Note (42). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 10,021 (2016: TEUR 10,022) and of the liabilities TEUR 18,645 (2016: TEUR 22,199).

Provisions
The amount recognised for provisions is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. The provisions recognised on the balance sheet are shown in Note (37). The effects on the income statement relating to liabilities and credit risks are shown under loan loss provisions in Note (6) and in other cases under administrative expenses in Note (11). The carrying amount of the provisions – not including social capital – underlying the judgements, assumptions and estimates amounts to TEUR 14,353 (2016: TEUR 24,723).

Social capital
Provisions for pensions, former severance entitlements and anniversary bonuses relate to defined-benefit plans. The present values of social capital are calculated using the following actuarial assumptions:

- Provisions for defined-benefit obligations are recognised according to the accrued benefit method.
- The expected retirement age was calculated individually for each employee on the basis of the changes resolved in the 2003 Austrian Ancillary Budget Act with regard to raising the earliest possible retirement age. The current regulation for incrementally raising the retirement age to 65 for men and women was taken into account.
- Generation tables for employees: table values from „AVÖ 2008 P-Rechnungsgrundlage für die Pensionsversicherung Pagler & Pagler"

Actuarial assumptions for the calculation of the present value of social capital	2017	2016
Interest rate/domestic	1.90%	1.70%
Annual indexing for pension provisions	2.00%	2.00%
Annual indexing (collective bargaining and performance based salary increases) for other provisions	2.00%	2.00%
Employee turnover rate for severance provisions	2.00%	2.00%
Employee turnover rate for other provisions	7.50%	7.50%
Individual career trend	2.00%	2.00%

The actuarial gains and losses from the adjustment of actuarial assumptions were recognised in other comprehensive income at TEUR 1.276 (2016: TEUR 939). The deferred taxes resulting from the recognition were also recognised directly in other comprehensive income at TEUR -284 (2016: TEUR -244). For 2018, pension payments of TEUR 363 (2017: TEUR 358), severance payments of TEUR 285 (2017: TEUR 401) and anniversary bonuses of TEUR 113 (2017: TEUR 66) are expected.

The amount of social capital is determined on the basis of actuarial calculations. The discount factor is a significant lever for the amount of social capital. A 0.5% decline in the discount factor would increase staff costs by TEUR 1,274 (2016: TEUR 1,428), and a 0.5% increase in the discount factor would reduce staff costs by TEUR 1,166 (2016: TEUR 1,300). A 0.5% decline in the salary or pension trend would reduce staff costs by TEUR 1,136 (2016: TEUR 1,258), and a 0.5% increase in the salary or pension trend would increase staff costs by TEUR 1,228 (2016: TEUR 1,365). A 0.5% decline in employee turnover would increase staff costs by TEUR 88 (2016: TEUR 91), and a 0.5% increase in employee turnover would reduce staff costs by TEUR 88 (2016: TEUR 91). The carrying amounts of social capital are shown in Note (37). Effects on the income statement are reported in Note (11). The carrying amount of the social capital underlying the judgements, assumptions and estimates amounts to TEUR 23,213 (2016: TEUR 24,534).

Leases
From the perspective of the lessor, judgements are required in particular to distinguish between finance leases and operating leases depending on the transfer of substantially all risks and rewards from the lessor to the lessee. The carrying amount of the finance leases underlying the judgements, assumptions and estimates amounts to TEUR 1,106,816 (2016: TEUR 1,156,928).

u) Benefits from public authorities
Government grants and grants from non-governmental organisations are recognised at fair value if it can be assumed with reasonable assurance that the grant will be awarded and the company will fulfil the associated conditions. The grants were deducted when determining the carrying amount of the asset. The company did not directly benefit from any other form of government assistance. Likewise, there are no unfulfilled conditions or other contingencies attaching to government assistance. This relates to subsidies for the development costs of a biotechnology project.

(4) APPLICATION OF REVISED AND NEW IFRS AND IAS
IFRS rules with mandatory application as of the reporting date were applied to the consolidated financial statements.

a) First-time application of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has made a number of changes to existing standards and issued new standards and interpretations, application of which is mandatory for 2016. These rules must also be observed in the EU and concern the following areas:

Amendments to IAS 7 – Statement of Cash Flows
The IASB published final amendments to IAS 7 Statement of Cash Flows in January 2016. The amendments serve to clarify IAS 7. They also improve the information provided to the users of financial statements regarding a company's borrowing activities and liquidity. The amendments are to be applied for financial years beginning on or after 1 January 2017. This did not give rise to any material effects for the Group.

Amendments to IAS 12 – Income Taxes
In January 2016, the IASB published amendments to IAS 12 to provide clarification on accounting for deferred tax assets from unrealised losses for assets carried at fair value. As the offsetting of taxes is limited under current tax law, the assessment for deductible temporary differences of the same kind must be carried out separately. When estimating probable future taxable income, where compelling evidence exists companies may assume that it is possible to realise an asset at above its carrying amount. Furthermore, tax deductions from the reversal of deductible temporary differences may not be recognised. The amendments came into force for financial years beginning on or after 1 January 2017. This did not give rise to any material effects for the Group.

b) New standards and interpretations not yet applied

The IASB has issued further standards and revisions of standards and interpretations that are not mandatory for the 2017 financial year. Unless stated otherwise, the amendments apply to financial years beginning on or after 1 January 2018. The listed standards and revisions of standards and interpretations will only be applied once they have come into force.

Publication of IFRS 9 – Financial Instruments

In July 2014, the IASB published IFRS 9. The standard is to replace the regulations of IAS 39. IFRS 9 deals with the classification, measurements and impairment of financial instruments and with hedge accounting. The standard is applicable to financial years beginning on or after 1 January 2018. The standard has now been endorsed by the EU. The application of IFRS 9 will have an extensive impact on the classification and measurement of the Group's financial assets and liabilities.

Firstly, due to the SPPI criteria not being met, for example in connection with non-recourse financing, there is an increase of TEUR 292,350 for financial instruments measured at fair value that are recognised through profit or loss. The Group's shareholders' equity increased by TEUR 20,361 as a result of this change. Secondly, in future financial assets still voluntarily measured at fair value in accordance with IAS 39 due to accounting mismatch items will be reported as financial instruments recognised at amortised cost in accordance with IFRS 9. This caused the transaction portfolio to decline by TEUR 20,637 and thus to a TEUR 1,168 reduction in shareholders' equity. For the one part, an amount of TEUR 553,477 of the previous portfolio of financial instruments available for sale (AFS) will be recognised at amortised cost in accordance with IFRS 9 in the future. As a result, shareholders' equity will be reduced by TEUR 33,254. The continuation of hedging relationships for financial instruments available for sale causes amortised cost to increase by the hedged fair value in the amount of TEUR 30,604. Shareholders' equity rose by TEUR 22,953 due to this effect. The remaining amount of the previous AFS portfolio amounting to TEUR 133,121 is allocated to the category of at fair value through profit or loss in accordance with IFRS 9 as the SPPI criteria are not met. Therefore, as at the changeover date the Group did not have any transaction portfolios not recognised at fair value outside of profit or loss. The Group will apply the provisions of IFRS 9 with regard to hedge accounting. Accordingly, existing effective hedging relationships under IFRS 9 will be continued. Application of the new impairment provisions results in a TEUR 40,269 increase in valuation allowances and provisions for the Group and thus in a TEUR 30,202 reduction in shareholders' equity. Based on the current credit portfolio, valuation allowances and provisions in the amount of TEUR 27,842 are required at stage 1 of the impairment test. An exposure of TEUR 1,163,054 is attributable to stage 2 of the impairment test. This results in a requirement for valuation allowances and provisions in the amount of TEUR 29,929.

Overall, therefore, the application of IFRS 9 has an effect on shareholders' equity taking into account deferred taxes of TEUR -19,901. With respect to fulfilment of the capital requirements under CRR, this means a decline in the CET1 ratio of 22 basis points from 14.69 % to 14.47 % and a decrease in the solvency ratio of 21 basis points from 18.01 % to 17.80 %. The Group does not apply the transitional provisions under Article 473a CRR here.

Publication of IFRS 9 – Early repayment option with penalty

The IASB published the amendments to IFRS 9 in October 2017. The amendments provide that financial assets with a repayment option which result in a negative indemnity payment to the party exercising the option following early repayment also breach the cash flow criteria, unlike previously assumed, and can thus be measured at amortised cost or at fair value outside of profit or loss. The amendments are to be applied retrospectively as of 1 January 2019. The amendment does not have any effect as the Group does not have any options of this kind at present.

Publication of IFRS 16 – Leases

The IASB has published the accounting standard IFRS 16 Leases. The key idea of the new standard is for lessees to recognise in general all leases and the associated contractual rights and obligations on the balance sheet. Lessees will therefore no longer have to distinguish between finance and operating leases as previously required under IAS 17. However, the new standard's requirements for lessors are similar to the previous rules of IAS 17. Leases will continue to be classified as finance leases or operating leases. The criteria of IAS 17 were retained for the classification according to IFRS 16. IFRS 16 also includes a range of additional requirements for recognition, disclosures in the notes and sale and leaseback transactions. Application of the new regulations is mandatory for financial years beginning on or after 1 January 2019. The Group acts mainly as a lessor. The associated changes in recognition and disclosures in the Notes are currently being analysed.

Publication of IFRS 15 – Revenue from Contracts with Customers

The IASB published IFRS 15 in May 2014 and clarifications for this standard in April 2016. IFRS 15 specifies how and when an IFRS reporter will recognise revenue. To provide users of financial statements with more informative, relevant disclosures, the standard provides a single, principles-based five-step model to be applied to all contracts with customers. The new standard applies to financial years beginning on or after 1 January 2018. The new standard was endorsed by the EU in October 2016. The Group expects no material changes, as the standard is not applicable to leases and financial instruments – and therefore not applicable to the majority of our revenue.

Amendments to IFRS 2 – Share-based Payment
The amendments published in June 2016 provide clarification on the classification and measurement of business transactions involving share-based payment. Specifically, they relate to share-based payments for which the type of settlement depends on future events and which are settled free of withholding tax. The amendments also include provisions on share-based payments settled in cash that contain performance conditions, as well as a modification relating to the recognition of payment transactions settled in cash that become payment transactions settled in equity securities due to changes in the conditions. The amendments are to be applied for financial years beginning on or after 1 January 2018 and are limited to three years. The Group does not expect this to have any effects as the existing share option programme expires at the end of November 2018.

Annual Improvement Project 2014-2016 cycle
In December 2016, the IASB announced the final amendments arising in the 2014-2016 cycle. IFRS 1, IFRS 12 and IAS 28 are affected in particular. In IFRS 1, the temporary exceptions in Paragraphs E3-E7 have been removed, while IFRS 12 more closely defines the scope of the standard and IAS 28 contains a clarification. The amendments in IFRS 12 are to be applied to financial years beginning as of 1 January 2017 and the amendments to IFRS 1 and IAS 28 apply to financial years beginning on or after 1 January 2018. The Group does not expect this to have any material effects.

Publication of IFRIC 22 – Foreign Currency Transactions and Advance Consideration
The IASB published IFRIC 22 on 8 December 2016. IFRIC 22 provides clarification on which exchange rate is to be used for transactions in foreign currencies that involve advance payments received or made. The date on which the payment made in advance is recorded for the first time or consideration is received is relevant for determining the exchange rate for the underlying asset, income or expenses. The interpretations are to be applied for financial years beginning on or after 1 January 2018. The Group does not anticipate any material effects as a result of this amendment.

Amendments to IAS 40 – classification of property under construction or development
The amendments published on 8 December 2016 provide clarification on Paragraph 57 of IAS 40. This paragraph contains guidelines for transfers into and out of the investment property portfolio. The amendments stipulate that a transfer can be carried out only when there has been a change in use of the property. In this context, the change in use depends on whether or not the definition of investment property is met. The amendments to IAS 40 apply to financial years beginning on or after 1 January 2018. The Group will observe the new provisions for future reclassifications.

Publication of IFRS 14 – Regulatory Deferral Accounts
In January 2014, the IASB published IFRS 14. IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP. The European Commission has decided not to begin the endorsement process for this standard but to wait for the final standard. The standard will have no effect on the Group.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments clarify the treatment of unrealised gains or losses from transactions between an investor and its associate or joint venture. The most significant consequence of the amendments is that the investor must recognise gains or losses in full if such a transaction relates to a business. If such a transaction relates to assets that do not constitute a business, the gains or losses must be recognised in part. The clarifications were originally envisaged to apply to financial years beginning after 31 December 2015. The IASB is now proposing the indefinite deferral of this effective date. However, the possibility of early application is to be retained.

Annual Improvement-Project Cycle 2015-2017
In December 2017, the IASB announced the final amendments arising in the 2015-2017 cycle. These affect the standards IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. In each case the amendments more narrowly define the scope of these standards, which are to be applied for financial years beginning as of 1 January 2019. They may be applied earlier, although the Group does not anticipate any material effects as a result of this.

Amendments to IFRS 4 – Insurance contracts
The amendments to IFRS 4 published by the IASB in September 2016 arise as a result of the different application dates of IFRS 9 (as of 2018) and IFRS 17 (as of 2021), the new standard dealing with the accounting treatment of insurance contracts. The aim of this is to counteract accounting anomalies and volatility in the income statement and to facilitate decisions as regards the application of the new classification and measurement provisions in IFRS 9 to which the provisions of IFRS 17 are relevant. The amendments apply for financial years beginning as of 1 January 2018 until IFRS 17 comes into force in 2021. The Group does not expect this to have any material effects.

Publication of IFRS 17 – Insurance contracts
In May 2017 the IASB published standard IFRS 17, which is to govern the accounting treatment of assets and liabilities resulting from insurance contracts following the building block approach as a basic model. The standard will also replace the previous IFRS 4 Insurance Contracts standard when it comes into force as of 1 January 2021. IFRS 17 may also be applied early in the case of simultaneous application of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The Group does not expect this to have any material effects.

Amendments to IAS 28 – Long-term components in associated companies and joint ventures
In October 2017 the IASB published an amendment to IAS 28 in order to clarify the treatment of impairment of long-term interests that are not accounted for using the equity method. The amendment states that the recognition, measurement and impairment of such interests must be in line with the provisions of IFRS 9. Application of the new regulation will be mandatory as of the beginning of the 2019 financial year. The Group does not expect this to have any material effects.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(5) NET INTEREST INCOME

in TEUR	2017	2016
Income from cash and balances with central banks	-1,462	-1,357
Income from loans and advances to banks	7,056	1,001
Income from loans and advances to customers	141,754	152,019
Income from leasing business	20,260	22,299
Income from hedging instruments	33,986	27,207
Income from derivatives, other	9,301	11,344
Income from debt securities	42,005	49,656
Income from shares	939	1,256
Income from investments, other	136	1,885
Interest and similar income	**253,975**	**265,310**
Expenses from amounts owed to banks	-1,390	-1,733
Expenses from amounts owed to customers	-17,858	-21,322
Expenses from liabilities evidenced by certificates	-32,441	-29,888
Expenses from hedging instruments	-37,791	-38,698
Expenses from derivatives, other	-8,554	-10,307
Expenses from liabilities designated AFV	11,640	12,312
Expenses from supplementary capital	-8,321	-7,836
Interest and similar expenses	**-94,715**	**-97,472**
Net interest income	**159,260**	**167,838**

The interest income from loans and advances to customers includes TEUR 1,910 (2016: TEUR 2,210) from unwinding. The interest income from receivables measured at amortised cost amounts to TEUR 188,016 (2016: TEUR 197,779). Net interest income includes dividends amounting to TEUR 136 (2016: TEUR 1,885). The interest expenses from liabilities measured at amortised cost amount to TEUR -60,010 (2016: TEUR -60,779).

Income from cash and balances with central banks includes negative interest income in the amount of TEUR 1,462 (2016: TEUR 1,357), while the negative interest income under income from loans and advances to banks amounts to TEUR 1,182 (2016: TEUR 72). In expenses from liabilities designated AFV, the negative interest from the derivatives leads to net negative interest expense of TEUR 11,640 (2016: TEUR 12,312).

Of which income from debt securities

in TEUR	2017	2016
Income from debt securities – HFT	0	1
Income from debt securities – AFV	5,820	6,997
Income from debt securities – AFS	15,792	19,304
Income from debt securities – HTM	20,393	23,354
Income from debt securities	**42,005**	**49,656**

Of which income from shares

in TEUR	2017	2016
Income from shares – HFT	22	8
Income from shares – AFV	373	231
Income from shares – AFS	529	554
Income from shares – HTM	15	463
Income from shares	**939**	**1,256**

Interest from supplementary capital is recorded under interest income from shares – held to maturity.

(6) PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

in TEUR	2017	2016
Additions to valuation allowances	-18,762	-21,169
Reversals of valuation allowances	21,024	59,114
Direct write-downs of loans and advances	-2,012	-1,396
Income from amounts received on loans and advances already written down	3,230	2,684
Additions to provisions	-3,401	-12,087
Reversals of provisions	9,978	20,561
Loan loss provisions	**10,057**	**47,707**

In 2017, the loss from the direct write-down and the utilisation of recognised loan loss provisions was TEUR 7,425 (2016: TEUR 26,957). There were no indications of further impairment in 2017 as of the date these consolidated financial statements were prepared. The positive result in the previous year is attributable to the extensive reversal of loan loss provisions in connection with HETA ASSET RESOLUTION AG.

(7) NET FEE AND COMMISSION INCOME

in TEUR	2017	2016
Lending and leasing business	4,996	4,724
Securities business	16,195	16,098
Giro and payment transactions	12,366	12,108
Other service business	4,956	4,412
Fee and commission income	**38,513**	**37,342**

in TEUR	2017	2016
Lending and leasing business	-1,115	-871
Securities business	-1,248	-1,129
Giro and payment transactions	-1,274	-1,279
Other service business	-43	-36
Fee and commission expenses	**-3,680**	**-3,315**

Fee and commission income from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 10,005 (2016: TEUR 9,617). Fee and commission expenses from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR -621 (2016: TEUR -607). Fee and commission income from fiduciary activities amounts to TEUR 1,373 (2016: TEUR 1,354).

(8) NET RESULT ON HEDGE ACCOUNTING

in TEUR	2017	2016
Adjustment to loans and advances to banks	-3,172	3,539
Adjustment to loans and advances to customers	-12,902	1,157
Adjustment to financial instruments available for sale	-10,288	-2,232
Adjustment to financial instruments with banks	190	-206
Adjustment to liabilities to customers	5,651	-5,823
Adjustment to securitised liabilities	25,201	-18,344
Adjustment to subordinated capital	2,327	-2,746
Net result from adjustment to underlying transactions from hedging	**7,007**	**-24,655**
Measurement of hedging instruments for loans and advances to banks	3,044	-2,398
Measurement of hedging instruments for loans and advances to customers	13,358	-1,374
Measurement of hedging instruments for available for sale financial instruments	10,577	2,449
Measurement of hedging instruments for liabilities to banks	-193	204
Measurement of hedging instruments for liabilities to customers	-5,867	5,814
Measurement of hedging instruments for securitised liabilities	-25,676	18,698
Measurement of hedging instruments for subordinated capital	-2,708	2,936
Net result of the measurement of hedging instruments	**-7,465**	**26,329**
Net result on hedge accounting	**-458**	**1,674**

(9) NET TRADING RESULT (NOT INCLUDING CHANGE IN OWN CREDIT RISK)

in TEUR	2017	2016
Trading result	4,766	3,781
Result from the valuation of financial instruments – HFT	26	49
Result from the valuation of derivatives	-41,257	-55,610
Result from the valuation of financial instruments – AFV	45,938	79,778
Net trading result (not including change in own credit risk)	**9,473**	**27,998**

Of which trading result

in TEUR	2017	2016
Currency-based transactions	4,415	2,895
Interest-based transactions	370	878
Result from consolidation of liabilities	-19	8
Trading result	**4,766**	**3,781**

Currency-related transactions include translation differences from assets and liabilities in foreign currencies. In 2017, the translation difference amounted to TEUR 4,660 (2016: 4,859).

Of which result from the valuation of financial instruments HFT

in TEUR	2017	2016
HFT – realised gains	16	26
HFT – appreciation in value	35	46
HFT – depreciation/amortisation	-25	-23
Result from the valuation of financial instruments – HFT	**26**	**49**

Of which result from the valuation of derivatives

in TEUR	2017	2016
Interest rate swaps	-44,552	-56,356
Cross-currency swaps	3,141	816
Interest rate options	217	-192
Credit default swaps	0	24
Foreign exchange forwards	-62	-16
Currency swaps	-1	114
Result from the valuation of derivatives	**-41,257**	**-55,610**

There is no intention to trade with these derivatives. They are used to hedge long-term underlying transactions, even if no hedge accounting is presented according to which the underlying transactions are mainly subject to the fair value option.

Of which result from the valuation of financial instruments at fair value

in TEUR	2017	2016
Realised gains on assets AFV	4,017	69
Realised gains on liabilities LAFV	163	1,259
Realised losses on assets AFV	-2,568	-6,398
Realised losses on liabilities LAFV	-378	-587
Impairment reversals on assets AFV	839	21,262
Impairment reversals on liabilities LAFV	66,282	67,381
Impairments on assets AFV	-21,646	-5,798
Impairments on liabilities LAFV	-771	2,590
Result from the valuation of financial instruments – AFV	**45,938**	**79,778**

As in the previous year, there was no new hedging of credit risk using credit derivatives or similar instruments in the 2017 reporting year.

The result from the valuation of financial instruments at fair value does not include the measurement effect for financial liabilities resulting from the change in own credit risk of TEUR -5,123 (2016: TEUR -33,955). This measurement effect is reported under a separate item in the income statement. Due to the very high volume, major fluctuations arise from this valuation. However, these have nothing to do with the Group's business operations as the Group services its obligations in full and, in contrast to financial assets at fair value, financial liabilities cannot be sold. IFRS 9 also provides that, in future, these measurement effects are to be recognised directly in other comprehensive income rather than in the income statement.

(10) NET RESULT FROM OTHER FINANCIAL INSTRUMENTS

in TEUR	2017	2016
Realised gains on sales of financial instruments	3,590	3,033
Realised losses on sales of financial instruments	-708	-680
Impairment reversals on financial instruments	2,575	8,956
Impairments on financial instruments	-327	-496
Net result from other financial instruments	**5,130**	**10,813**

Due to disposals of available-for-sale assets, TEUR -445 (2016: TEUR 64) was reversed from the reserve via the income statement in the reporting year. The reclassification is included in the following table under AFS – realised gains and AFS – realised losses.

Net result from other financial instruments by measurement classification

in TEUR	2017	2016
AFS – realised gains	1,606	932
AFS – realised losses	-523	-257
AFS – impairment reversals	2,159	1,975
AFS – impairments	-183	-178
Result from financial assets AFS	**3,059**	**2,472**
HTM – realised losses	0	-33
HTM – impairment reversals	307	197
Result from financial assets HTM	**307**	**164**
L&R – realised gains	1,872	1,474
L&R – realised losses	-110	-337
L&R – impairment reversals	60	6,465
L&R – impairments	-53	-91
Result from financial assets L&R	**1,769**	**7,511**
LAC – realised gains	112	627
LAC – realised losses	-75	-53
LAC – impairment reversals	49	319
LAC – impairments	-91	-227
Result from liabilities LAC	**-5**	**666**
Net result from other financial instruments	**5,130**	**10,813**

(11) ADMINISTRATIVE EXPENSES

Group administrative expenses consist of staff costs, material expenses and impairment on property, plant and equipment and intangible assets.

in TEUR	2017	2016
Staff costs	-60,448	-59,735
Materials expenses	-35,869	-32,966
Depreciation/amortisation of property, plant and equipment and intangible assets	-3,635	-4,413
Administrative expenses	**-99,952**	**-97,114**

Of which staff costs

in TEUR	2017	2016
Wages and salaries	-45,340	-44,436
Statutory social security contributions	-11,553	-11,460
Voluntary social benefits	-861	-782
Expenses for retirement benefits	-2,383	-2,858
Social capital	-311	-199
Staff costs	**-60,448**	**-59,735**

Expenses for pensions and other benefits include payments for defined contribution plans as part of an employee benefit fund and pension fund contributions of TEUR 1,415 (2016: TEUR 1,338).

Of which material expenses

in TEUR	2017	2016
Building expenses	-5,633	-5,267
IT expenses	-12,361	-10,749
Advertising and PR expenses	-4,984	-4,703
Legal and advisory expenses	-2,468	-3,098
Communications expenses	-1,254	-1,282
Organisational form-related expenses	-3,010	-2,372
Staff development expenses	-873	-1,351
Other materials expenses	-5,286	-4,144
Materials expenses	**-35,869**	**-32,966**

Building expenses include rental payments for rented and leased assets. Minimum rental expenses of TEUR 1,885 (2017: TEUR 1,427) are expected for 2018 and TEUR 9,659 (2016: TEUR 7,353) for the next five years.

Minimum lease payments from non-terminable operating leases

in TEUR	2017	2016
Up to 1 year	-1,184	-1,108
More than 1 year to 5 years	-3,014	-3,182
More than 5 years	-3,840	-3,973
Minimum lease payments from non-terminable operating leases (lessor)	**-8,038**	**-8,263**

Of which depreciation of property, plant and equipment and intangible assets

in TEUR	2017	2016
Depreciation of property, plant and equipment	-3,113	-3,704
Depreciation of intangible assets	-522	-709
Depreciation/amortisation of property, plant and equipment and intangible assets	**-3,635**	**-4,413**

(12) OTHER INCOME

in TEUR	2017	2016
Income from operating leases	4,310	4,337
Income from the disposal of assets	4,314	2,756
Impairment reversals on fixed assets	6	0
Other revenue from leasing business	1,813	1,652
Operating cost income	1,730	1,735
Merchandise revenues	3,552	2,612
Revenues from consultancy and other services	488	495
Miscellaneous other income	13,158	7,423
Other income	**29,371**	**21,010**

Income from operating leases constitutes rental income from let properties. The minimum lease income from non-terminable operating leases for future periods are shown in the table below.

Minimum lease payments from non-terminabl operating leases

in TEUR	2017	2016
Up to 1 year	2,745	3,551
More than 1 year to 5 years	7,381	8,019
More than 5 years	6,769	7,153
Minimum lease payments from non-terminable operating leases (lessor)	**16,895**	**18,723**

(13) OTHER EXPENSES

in TEUR	2017	2016
Depreciation/amortisation investment properties	-2,167	-1,761
Impairment investment properties	-200	-300
Depreciation/amortisation other assets	-1,208	-1,248
Disposals of remaining carrying amounts	-169	-59
Losses on the disposal of assets	-2,065	-2,774
Other expenses from leasing business	-2,652	-2,006
Operating cost expenses	-2,001	-1,886
Cost of merchandise	-3,530	-2,574
Other tax expenses	-2,806	-36,651
Expenses resulting from losses	-2,967	-6,833
Miscellaneous other expenses	-9,413	-8,738
Other expenses	**-29,178**	**-64,830**

Other tax expenses include the stability fee of TEUR 2,451 (2016: TEUR 36,235). A one-off advance payment amounting to TEUR 22,826 has been made in 2016.

(14) TAXES ON INCOME

in TEUR	2017	2016
Current income taxes	-24,217	-34,064
Deferred income taxes	-4,059	5,241
Income taxes from previous periods	0	-368
Taxes on income	**-28,276**	**-29,191**

Reconciliation of the tax rate (25 %) with taxes on income

in TEUR	2017	2016
Earnings before taxes	95,752	117,619
Applicable tax rate	25 %	25 %
Income tax computed	**-23,938**	**-29,405**
Tax effects		
from tax-exempt investment income	1,707	1,228
from other tax-exempt income	2	14
from previous years and tax rate changes	-45	-295
from differing international tax rates	18	270
from other non-deductible expenses	-552	-30
from other differences	-5,468	-973
Taxes on income	**-28,276**	**-29,191**

Due to the measurement of financial assets classified as available for sale outside profit or loss, deferred taxes were allocated directly to other comprehensive income and thus likewise recognised outside profit or loss. As of 31 December 2016, these deferred taxes (tax liability) amounted to TEUR 3,283 (2016: TEUR 3,406 tax liability).

Other differences include taxes on income from an interest in a partnership, the partly non-tax effective partial write-down on an equity investment and the targeted sale of an investment.

C. NOTES TO THE BALANCE SHEET

(15) CASH AND BALANCES WITH CENTRAL BANKS

in TEUR	31.12.2017	31.12.2016
Cash on hand	25,391	26,043
Balances with central banks	288,196	311,962
Deferred interest	-3	-5
Cash and balances with central banks	313,584	338,000

Balances at central banks of TEUR 43,173 (2016: TEUR 48,383) are dedicated to the minimum reserve according to the ECB regulation. According to the OeNB's definition, the minimum reserve represents a working balance for ongoing payment transactions. For this reason, the minimum reserve meets the definition of cash and cash equivalents and is therefore reported under cash and balances with central banks.

(16) LOANS AND ADVANCES TO BANKS (L&R)

Loans and advances to banks – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Interbank accounts	109,419	151,332
Money market investments	30,350	357
Loans to banks	1,071	12,786
Bonds	307,063	406,748
Other loans and advances	2,994	4,066
Loans and advances to banks	450,897	575,289

In loans and advances to banks, the use of hedge accounting led to amortised costs of TEUR 126,368 (2016: TEUR 145,488) being adjusted by the hedged fair value of TEUR 14,337 (2016: TEUR 17,509).

Loans and advances to banks – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	186,005	220,389
Germany	88,011	170,075
Switzerland and Liechtenstein	36,553	53,027
Italy	1,714	1,245
Other foreign countries	138,614	130,553
Loans and advances to banks	450,897	575,289

Valuation allowances included – by type

in TEUR	31.12.2017	31.12.2016
Portfolio valuation allowances	-189	-259
Loan loss provisions for loans and advances to banks	-189	-259

(17) LOANS AND ADVANCES TO CUSTOMERS (L&R)

Loans and advances to customers – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Cash advances	304,486	263,913
Overdraft lines	859,319	754,764
Acceptance credits	15,892	14,106
Municipal cover loans	634,557	682,058
Mortgage bond cover	2,952,712	2,640,374
Lombard loans	262,076	279,860
Other loans	2,872,611	2,912,849
Lease receivables (net investment in a lease)	1,106,816	1,156,928
Bonds	322,002	345,087
Other loans and advances	50	59
Loans and advances to customers	9,330,521	9,049,998

In loans and advances to customers, the use of hedge accounting led to amortised costs of TEUR 906,453 (2016: TEUR 766,947) being adjusted by the hedged fair value of TEUR 33,714 (2016: TEUR 46,616).

Loans and advances to customers – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	6,166,275	5,982,017
Germany	1,227,642	1,097,969
Switzerland and Liechtenstein	706,573	685,489
Italy	881,419	913,526
Other foreign countries	348,612	370,997
Loans and advances to customers	9,330,521	9,049,998

Loans and advances to customers – breakdown by segment

in TEUR	31.12.2017	31.12.2016
Corporate Customers	5,780,212	5,403,932
Private Customers	1,887,216	1,928,813
Financial Markets	546,599	519,652
Corporate Center	1,116,494	1,197,601
Loans and advances to customers	9,330,521	9,049,998

Loans and advances to customers – breakdown by industry

in TEUR	31.12.2017	31.12.2016
Public sector	700,626	710,130
Financial intermediaries	205,867	212,102
Commerce	1,439,127	1,444,498
Industry	676,800	603,500
Trading	547,646	507,927
Tourism	454,780	468,957
Real estate	1,738,484	1,488,892
Other industries	1,398,410	1,402,337
Liberal professionals	178,209	186,274
Private households	1,988,010	2,022,503
Other	2,562	2,878
Loans and advances to customers	9,330,521	9,049,998

Gross and net investment in leases

The Group mainly leases real estate and to a lesser extent movables under finance leases. For the receivables from finance leases included in this item, gross investment is reconciled with the present value of the minimum lease payments as follows.

in TEUR	31.12.2017	31.12.2016
Minimum lease payments	1,292,801	1,372,012
Non-guaranteed residual values	0	0
Gross total investment	**1,292,801**	**1,372,012**
Unrealised financial income	-185,985	-215,084
Net investment	**1,106,816**	**1,156,928**
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	**1,106,816**	**1,156,928**

The cumulative valuation allowance on finance leases amounts to TEUR 26,511 (2016: TEUR 28,207).

Leases – breakdown by maturity

in TEUR	31.12.2017	31.12.2016
Gross total investment	**1,292,801**	**1,372,012**
of which up to 1 year	194,699	211,771
of which 1 to 5 years	484,859	499,170
of which more than 5 years	613,243	661,071
Present value of minimum lease payments	**1,106,816**	**1,156,928**
of which up to 1 year	163,817	175,531
of which 1 to 5 years	394,367	399,596
of which more than 5 years	548,632	581,801

Included valuation allowances by type

in TEUR	31.12.2017	31.12.2016
Specific valuation allowances	-72,760	-88,925
Portfolio valuation allowances	-16,827	-15,191
Allowance for losses on loans and advances to customers	**-89,587**	**-104,116**

Loan loss provisions – breakdown by segment

in TEUR	31.12.2017	31.12.2016
Corporate Customers	-51,426	-62,690
Private Customers	-11,253	-12,811
Financial Markets	-346	-332
Corporate Center	-26,562	-28,283
Loan loss provisions for loans and advances to customers	**-89,587**	**-104,116**

Changes in the valuation allowances included

in TEUR	Individual valuation allowances		Portfolio valuation allowances		Total	
	2017	2016	2017	2016	2017	2016
Balance 1 January	**-88,925**	**-152,248**	**-15,191**	**-15,713**	**-104,116**	**-167,961**
Currency differences	468	3	0	0	468	3
Reclassification	27	274	1	0	28	274
Utilisation	11,826	25,556	15	5	11,841	25,561
Reversal	19,679	57,359	1,345	1,756	21,024	59,115
Additions	-15,835	-19,869	-2,997	-1,239	-18,832	-21,108
Balance 31 December	**-72,760**	**-88,925**	**-16,827**	**-15,191**	**-89,587**	**-104,116**

(18) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in TEUR	31.12.2017	31.12.2016
Positive market value of fair value hedges	56,705	81,664
Deferred interest on derivative hedges	17,280	17,147
Positive market values of hedges	**73,985**	**98,811**

Nominal and market values from fair value hedges – breakdown by type of business

in TEUR	Nominal values		Positive market values		Negative market values	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Interest rate swaps	4,815,555	3,833,147	54,758	80,796	87,365	96,764
Cross currency swaps	176,007	195,006	1,947	868	19,904	34,205
Interest rate derivatives	**4,991,562**	**4,028,153**	**56,705**	**81,664**	**107,269**	**130,969**
Derivatives	**4,991,562**	**4,028,153**	**56,705**	**81,664**	**107,269**	**130,969**

The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(19) TRADING ASSETS AND DERIVATIVES

Trading assets and derivatives – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Investment certificates	50	661
Positive market values of derivative financial instruments	175,336	271,093
Deferred interest	15,554	37,560
Trading assets and derivatives	**190,940**	**309,314**

Trading assets and derivatives – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	21,339	34,744
Germany	71,563	106,621
Switzerland and Liechtenstein	176	518
Other foreign countries	97,862	167,431
Trading assets and derivatives	**190,940**	**309,314**

Nominal and market values from derivatives – breakdown by type of business

in TEUR	Nominal values		Positive market values		Negative market values	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Interest rate swaps	3,112,292	4,015,900	144,475	220,582	101,911	134,705
Cross currency swaps	1,045,814	1,283,800	24,927	44,269	52,404	88,626
Interest rate options	211,246	230,273	2,157	2,345	1,498	1,903
Interest rate derivatives	**4,369,352**	**5,529,973**	**171,559**	**267,196**	**155,813**	**225,234**
FX forward transactions	326,656	291,676	3,443	2,994	3,081	2,570
FX swaps	72,937	238,380	331	727	45	441
FX options	315	3,161	3	176	3	176
Currency derivatives	**399,908**	**533,217**	**3,777**	**3,897**	**3,129**	**3,187**
Derivatives	**4,769,260**	**6,063,190**	**175,336**	**271,093**	**158,942**	**228,421**

(20) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE (AFV)

Financial assets designated at fair value – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Debt securities of public issuers	174,438	190,524
Debt securities of other issuers	113,341	142,843
Shares	56,428	0
Investment certificates	2,716	2,770
Other equity interests	106	5,410
Loans and advances to customers	392,877	454,932
Deferred interest	4,759	5,729
Financial assets – designated at fair value	744,665	802,208

Disclosures on changes in fair value

in TEUR	2017	2016
Credit exposure	744,665	802,208
Collateral	300,489	359,116
Total change in market value	134,561	115,764
of which due to market risk	126,187	110,070
of which due to credit risk	8,374	5,694
Change in market value in the reporting period	-18,884	2,196
of which due to market risk	-21,564	-20,021
of which due to credit risk	2,680	22,217

The change in fair value due to credit risk is determined using a model in which the change in fair value due to market risk is deducted from the total change in fair value. The disposal of financial instruments at fair value resulted in a realised loss of TEUR -2,266 (2016: TEUR -12,702). This loss was offset by a realised gain on the disposal of derivatives in the amount of TEUR 203 (2016: TEUR 12,991). In particular, these derivatives hedge interest rate, currency fluctuation and market price risks.

Financial assets designated at fair value – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	527,888	525,143
Germany	60,109	67,431
Switzerland and Liechtenstein	5,037	40,254
Italy	0	12,028
Other foreign countries	151,631	157,352
Financial assets – designated at fair value	744,665	802,208

Financial assets designated at fair value – breakdown by industry

in TEUR	31.12.2017	31.12.2016
Public sector	501,719	546,509
Financial institutions	86,554	110,668
Financial intermediaries	37,106	35,177
Commerce	11,286	11,733
Industry	1,964	31,964
Trading	5,114	6,488
Real estate	9,194	10,541
Other industries	76,613	27,559
Liberal professionals	0	639
Private households	15,115	20,930
Financial assets – designated at fair value	744,665	802,208

(21) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Debt securities of public issuers	323,861	329,611
Debt securities of other issuers	315,639	391,179
Shares	110	110
Investment certificates	6,320	5,835
Other equity interests	21,252	19,913
Deferred interest	8,180	11,209
Other equity investments	11,207	11,208
Other investments in affiliated companies	29	28
Financial assets – available for sale	686,598	769,093

Financial assets available for sale – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	284,802	348,706
Germany	56,336	50,761
Switzerland and Liechtenstein	11,187	41,278
Italy	3,887	4,253
Other foreign countries	330,386	324,095
Financial assets – available for sale	686,598	769,093

Financial assets available for sale – breakdown by industry

in TEUR	31.12.2017	31.12.2016
Public sector	346,555	352,577
Financial institutions	318,686	338,984
Financial intermediaries	6,217	30,186
Commerce	18	17
Industry	6,528	10,805
Tourism	371	625
Real estate	172	201
Other industries	8,051	35,698
Financial assets – available for sale	686,598	769,093

"Financial assets – available for sale" includes other investments and shares in associates with a carrying amount of TEUR 11,236 (2016: TEUR 11,236). No fair value was carried on the balance sheet for these assets. It is not possible to reliably determine the fair value of these financial instruments, as they are not traded on an active market, no similar investments were observable on the market, and internal models do not allow a reliable measurement. These assets relate to strategic investments by the Group. There is therefore no intention to sell them. Financial assets whose fair value cannot be calculated are measured at cost. One of the investments not measured at fair value was sold in 2017. The resulting gain amounted to TEUR 1,546 and was recognised under the net result from other financial instruments.

The movements in the available-for-sale remeasurement reserve were recognised outside of profit or loss and thus in other comprehensive income. As of 31 December 2017, this amounted to TEUR 32,802 (2016: TEUR 40,888). In the measurement of available-for-sale assets, deferred taxes were deducted directly from other comprehensive income. Due to disposals of available-for-sale assets, TEUR -445 (2016: TEUR 64) was reversed from the reserve in the income statement in the reporting year. Impairments on these assets were recognised through profit or loss under net result from other financial instruments in Note (10) and amounted to TEUR 3,263 in 2017 (2016: TEUR -178).

Due to the application of hedge accounting, the changes in market value of TEUR 22,953 (2016: TEUR 30,669) recognised in other comprehensive income were reduced by the effective hedged fair value change and recognised through profit or loss in the income statement under net result on hedge accounting.

(22) FINANCIAL ASSETS HELD TO MATURITY (HTM)

Financial assets held to maturity – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Debt securities of public issuers	282,389	282,147
Debt securities of other issuers	805,960	795,733
Supplementary capital of other issuers	0	10,000
Deferred interest	13,154	16,013
Financial assets – held to maturity	**1,101,503**	**1,103,893**

In 2017 no valuation allowance was recognised in the net result from other financial instruments (valuation allowance 2016: TEUR 0). The portfolio valuation allowance reduced assets by TEUR 162 in the 2017 financial year (2016: TEUR 192).

Financial assets held to maturity – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	259,815	279,444
Germany	51,597	84,711
Switzerland and Liechtenstein	0	10,007
Other foreign countries	790,091	729,731
Financial assets – held to maturity	**1,101,503**	**1,103,893**

Financial assets held to maturity – breakdown by industry

in TEUR	31.12.2017	31.12.2016
Public sector	286,847	287,073
Financial institutions	789,285	767,667
Financial intermediaries	6,144	14,449
Industry	6,021	1,001
Other industries	13,206	33,703
Financial assets – held to maturity	**1,101,503**	**1,103,893**

(23) FINANCIAL ASSETS HELD TO MATURITY – BREAKDOWN BY INDUSTRY

Change in shares in companies measured at equity

in TEUR	2017	2016
Carrying value of holding 1 January	**34,750**	**34,554**
Attributable profit/loss	-22,224	672
Changes in the scope of consolidation	-7,370	-81
Write-downs on equity investments	-579	0
Dividends	-382	-395
Carrying value of holding 31 December	**4,195**	**34,750**

The difference between the carrying amount of investments and the pro rata equity of associates included in the consolidated financial statements using the equity method is TEUR 1,524 (2016: TEUR 13,011). This difference was added to the value of the investments and to retained earnings. The gains and losses from these companies were recognised only on a pro rata basis through profit or loss in the income statement under the result from equity consolidation. These gains and losses amounted to TEUR -17,717 in 2017 (2016: TEUR 2,451). Further information on companies measured at equity is provided under Part VII.

(24) INVESTMENT PROPERTY

in TEUR	31.12.2017	31.12.2016
Land portion	16,365	11,459
Buildings portion	47,854	47,699
Investment property	**64,219**	**59,158**

In 2017, the property portfolio comprised 50 (2016: 57) properties in Austria, Switzerland, Germany and Italy. The portfolio includes both residential properties with a carrying amount of TEUR 9,160 (2016: TEUR 6,082) and commercial properties with a carrying amount of TEUR 45,551 (2016: TEUR 53,075). The current market value of our property portfolio is TEUR 71,722 (2016: TEUR 76,859).

The properties are valued according to the key parameters shown below on the basis of internal appraisals. They therefore correspond to Level 3 in the fair value hierarchy.

Key parameters for real estate appraisal	2017	2016
Return in %	2.0 - 9.0	2.5 - 8.0
Inflation rate in %	1.5 - 2.0	1.5 - 2.0
Rental loss risk in %	1.5 - 8.0	1.5 - 8.0

There are no material restrictions on the disposal of these assets. Likewise, there are no contractual obligations to purchase, build or develop such properties. The development of investment property is shown in Note (30). The rental payments reported for investment property are shown in Note (12).

(25) INTANGIBLE ASSETS

Intangible assets – breakdown by type

in TEUR	31.12.2017	31.12.2016
Software acquired	2,163	1,767
Internally generated intangible assets	31,352	0
Other intangible assets	399	244
Intangible assets	**33,914**	**2,011**

Intangible assets mainly contain internally generated intangible assets in the amount of TEUR 31,352. As at the reporting date this item included government grants (research premium from the tax office) of TEUR 6,458. The grants were deducted when determining the carrying amount of the asset. The company did not directly benefit from any other form of government assistance. Likewise, there are no unfulfilled conditions or other contingencies attaching to government assistance. This relates to development costs for a biotechnology project on the treatment of bowel and bladder incontinence. Present values are calculated annually using the risk-adjusted DCF method for the purpose of testing the development projects in progress for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level for which separate cash flows can be identified (cash-generating units). The impairment of capitalised development costs largely depends on the results of the clinical studies in progress at the respective time. Based on the results of the studies to date, the management concludes that it can be expected with a probability commensurate with the development risk that it will be possible to market the developed products in the foreseeable future.
The estimated cash flows after tax based on the long-term business model of the company as well as the management's assessments with respect to the relevant projects' probability of success (risk adjustment) are used to determine the value in use. The anticipated cash flows are based on the planning for the period from 2018 to 2022. The longer the forecast horizon, the more significant the rise in uncertainty associated with the planning; in the view of the Managing Board, sufficient account has been taken of this by discounting the assumed success rate by 50%. The risk discount selected lies within the statistical mean for the probability of marketing authorisation, which is stated in the literature to be in the order of 30% (clinical phase II) and 70% (clinical phase III). The discount rate of 11.73% per year is calculated using the WACC method. The cost of equity is based on a risk-free interest rate of 1.37%, a market risk premium of 7%, a beta of 1.20 and equity financing of 100%.

The development of intangible assets is shown in Note (30).

(26) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

in TEUR	31.12.2017	31.12.2016
Land without buildings	929	951
Land with buildings	10,272	10,419
Buildings	56,545	58,354
Operational and office equipment	4,228	4,143
Leased movables	783	839
Construction in progress	51	206
Property, plant and equipment	**72,808**	**74,912**

The gross carrying amount of fully depreciated property, plant and equipment that is still in use is TEUR 10,917 (2016: TEUR 9,879). The development of property, plant and equipment is shown in Note (30).

(27) DEFERRED TAX ASSETS

In the table below, the deferred tax liabilities that on balance represent an asset in the respective tax entity are deducted from the tax assets.

in TEUR	31.12.2017	31.12.2016
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	0	6,653
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	3,283	0
Temporary differences from writing-down assets	3,125	2,942
Temporary differences from provisions	485	391
Temporary differences from social capital	4,064	4,331
Temporary differences from impairments	13,557	6,307
Other temporary differences	634	1,110
From tax loss carryforwards	147	144
Deferred tax assets	**25,295**	**21,878**
Set-off of deferred taxes	-16,311	-12,680
Net deferred tax assets	**8,984**	**9,198**

Within the Group, there are loss carryforwards that have not yet been applied but that have been capitalised in the amount of TEUR 240 (2016: TEUR 367). In addition, there are tax loss carryforwards of TEUR 5,498 (2016: TEUR 5,377) that have not been capitalised in the Group. The non-capitalised loss carryforwards in the Group can be carried forward indefinitely. A breakdown of total deferred tax assets by maturity is shown in Note (44).

(28) NON-CURRENT ASSETS AVAILABLE FOR SALE

No assets were classified as non-current assets available for sale as at 31 December 2017 and 31 December 2016.

(29) OTHER ASSETS

in TEUR	31.12.2017	31.12.2016
Other properties	47,353	52,447
Trade receivables	1,441	219
Other tax assets	6,826	4,362
Deferred receivables	387	320
Other assets	48,663	39,580
Other assets	**104,670**	**96,928**

Prepaid expenses and any assets not attributable to one of the other asset items are reported under other assets. This item also includes properties that are not property, plant and equipment according to IAS 16, investment property according to IAS 40, or non-current assets available for sale according to IFRS 5. These properties are closely associated with the realisation of collateral from the lending business. A breakdown by maturity is shown in Note (44). Impairments on other properties are recognised under other expenses in Note (13) and amounted to TEUR 0 in 2017 (2016: TEUR 0).

(30) STATEMENT OF CHANGES IN ASSETS

in TEUR 2016	Acquisition cost 01.01.	Currency translation	Acquisitions	Additions	Disposals	Reclassifica-tions	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,846	17	0	1,694	0	-1	9,556	1,767
Other intangible assets	54	3	0	189	0	0	246	244
Intangible assets	**7,900**	**20**	**0**	**1,883**	**0**	**-1**	**9,802**	**2,011**
Owner-occupied land and buildings	100,090	80	0	1,353	0	50	101,573	68,773
Operational and office equipment	15,691	5	0	946	-1,230	-516	14,896	4,143
Other property, plant and equipment	1,683	0	0	200	-17	466	2,332	1,996
Property, plant and equipment	**117,464**	**85**	**0**	**2,499**	**-1,247**	**0**	**118,801**	**74,912**
Investment property	57,515	0	0	1,438	-619	36,396	94,730	59,158
Total	**182,879**	**105**	**0**	**5,820**	**-1,866**	**36,395**	**223,333**	**136,081**

in TEUR 2016	Cumulative depreciation/ amortisation 01.01.	Currency translation	Acquisitions	Regular am-ortisation	Disposals	Reclassifica-tions	Impairments	Cumulative deprecia-tion/am-ortisation 31.12.
Software acquired	-7,062	-18	0	-709	0	0	0	-7,789
Other intangible assets	-2	0	0	0	0	0	0	-2
Intangible assets	**-7,064**	**-18**	**0**	**-709**	**0**	**0**	**0**	**-7,791**
Owner-occupied land and buildings	-30,529	-16	0	-2,255	0	0	0	-32,800
Operational and office equipment	-10,501	-4	0	-1,389	1,141	0	0	-10,753
Other property, plant and equipment	-279	0	0	-60	3	0	0	-336
Property, plant and equipment	**-41,309**	**-20**	**0**	**-3,704**	**1,144**	**0**	**0**	**-43,889**
Investment property	-13,997	0	0	-1,761	245	-19,759	-300	-35,572
Total	**-62,370**	**-38**	**0**	**-6,174**	**1,389**	**-19,759**	**-300**	**-87,252**

in TEUR	Acquisition cost	Currency translation	Acquisitions	Additions	Disposals	Reclassifica-tions	Acquisition cost	Carrying amounts
2017	01.01.						31.12.	31.12.
Software acquired	9,556	-63	0	922	-1,757	-6	8,652	2,163
Internally generated intangible assets	0	0	31,352	0	0	0	31,352	31,352
Other intangible assets	246	-25	1	175	0	6	403	399
Intangible assets	**9,802**	**-88**	**31,353**	**1,097**	**-1,757**	**0**	**40,407**	**33,914**
Owner-occupied land and buildings	101,573	-752	0	377	0	-293	100,905	66,817
Operational and office equipment	14,896	-23	91	1,606	-1,090	81	15,561	4,228
Other property, plant and equipment	2,332	0	0	172	-26	-321	2,157	1,763
Property, plant and equipment	**118,801**	**-775**	**91**	**2,155**	**-1,116**	**-533**	**118,623**	**72,808**
Investment property	94,730	0	0	7,735	-6,945	635	96,155	64,219
Total	**223,333**	**-863**	**31,444**	**10,987**	**-9,818**	**102**	**255,185**	**170,941**

in TEUR	Cumulative depreciation/ amortisation	Currency translation	Acquisitions	Regular am-ortisation	Disposals	Reclassifica-tions	Impairments	Cumulative deprecia-tion/am-ortisation
2017	01.01.							31.12.
Software acquired	-7,789	63	0	-522	1,757	2	0	-6,489
Internally generated intangible assets	0	0	0	0	0	0	0	0
Other intangible assets	-2	0	0	0	0	-2	0	-4
Intangible assets	**-7,791**	**63**	**0**	**-522**	**1,757**	**0**	**0**	**-6,493**
Owner-occupied land and buildings	-32,800	157	0	-1,399	0	-46	0	-34,088
Operational and office equipment	-10,753	21	0	-1,652	1,051	0	0	-11,333
Other property, plant and equipment	-336	0	0	-62	4	0	0	-394
Property, plant and equipment	**-43,889**	**178**	**0**	**-3,113**	**1,055**	**-46**	**0**	**-45,815**
Investment property	-35,572	0	0	-2,167	2,876	3,127	-200	-31,936
Total	**-87,252**	**241**	**0**	**-5,802**	**5,688**	**3,081**	**-200**	**-84,244**

(31) AMOUNTS OWED TO BANKS (LAC)

In liabilities to banks, the use of hedge accounting led to amortised costs of TEUR 23,000 (2016: TEUR 12,996) being adjusted by the hedged fair value of TEUR 185 (2016: TEUR 375).

Amounts owed to banks – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Interbank accounts	188,295	174,557
Money market borrowing	1,217,994	312,862
Loans from banks	192,675	72,958
Amounts owed to banks	**1,598,964**	**560,377**

Amounts owed to banks – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	1,210,819	374,212
Germany	297,110	106,380
Switzerland and Liechtenstein	38,140	21,446
Other foreign countries	52,895	58,339
Amounts owed to banks	**1,598,964**	**560,377**

(32) AMOUNTS OWED TO CUSTOMERS (LAC)

In liabilities to customers, the use of hedge accounting led to amortised costs of TEUR 276,000 (2016: TEUR 256,000) being adjusted by the hedged fair value of TEUR 13,775 (2016: TEUR 19,425).

Amounts owed to customers – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Demand deposits	2,763,082	2,831,803
Time deposits	1,169,344	1,198,607
Savings deposits	639,955	648,335
Special-interest savings books	603,280	603,352
Amounts owed to customers	**5,175,661**	**5,282,097**

Amounts owed to customers – breakdown by region

in TEUR	31.12.2017	31.12.2016
Austria	4,232,919	4,133,202
Germany	503,133	576,377
Switzerland and Liechtenstein	260,530	248,772
Italy	28,694	28,299
Other foreign countries	150,385	295,447
Amounts owed to customers	**5,175,661**	**5,282,097**

Amounts owed to customers – breakdown by segment

in TEUR	31.12.2017	31.12.2016
Corporate Customers	1,676,173	1,825,456
Private Customers	2,593,941	2,637,749
Financial Markets	775,253	667,594
Corporate Center	130,294	151,298
Amounts owed to customers	**5,175,661**	**5,282,097**

Amounts owed to customers – breakdown by industry

in TEUR	31.12.2017	31.12.2016
Public sector	443,900	592,927
Financial intermediaries	999,282	845,173
Commerce	593,655	599,251
Industry	369,561	524,368
Trading	175,736	215,320
Tourism	51,548	45,987
Real estate	107,324	94,732
Other industries	298,258	285,364
Liberal professionals	173,695	144,199
Private households	1,954,765	1,926,318
Other	7,937	8,458
Amounts owed to customers	**5,175,661**	**5,282,097**

(33) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

Liabilities evidenced by certificates – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Mortgage bonds	1,609,798	1,127,574
Municipal bonds	41,249	42,470
Medium-term fixed-rate notes	1,399	1,827
Bonds	1,601,071	1,260,247
Housing construction bonds	24,252	57,176
Bonds issued by Pfandbriefbank	0	175,876
Deferred interest	19,004	17,097
Liabilities evidenced by certificates	**3,296,773**	**2,682,267**

Repurchased own bonds of TEUR 1,000,978 (2016: TEUR 307,450) were deducted directly from liabilities evidenced by certificates. In liabilities evidenced by certificates, the use of hedge accounting led to amortised costs of TEUR 2,984,404 (2016: TEUR 2,072,902) being adjusted by the hedged fair value of TEUR 31,514 (2016: TEUR 56,715)

(34) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in TEUR	31.12.2017	31.12.2016
Negative market values of fair value hedges	107,269	130,969
Deferred interest on derivative hedging instruments	11,772	15,878
Negative market values of hedges	**119,041**	**146,847**

The nominal values and the negative market values of the hedging instruments are shown in Note (18). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(35) TRADING LIABILITIES AND DERIVATIVES

Trading liabilities and derivatives – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Negative market values of derivative financial instruments	158,942	228,421
Deferred interest	4,679	4,622
Trading liabilities and derivatives	**163,621**	**233,043**

The nominal values and the negative market values of the derivative financial instruments are shown in Note (19).

(36) FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE (LAFV)

Financial liabilities designated at fair value – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Amounts owed to banks at fair value	29,281	149,837
Amounts owed to customers at fair value	149,303	559,628
Mortgage bonds at fair value	25,396	26,206
Municipal bonds at fair value	689,630	734,990
Bonds at fair value	158,633	1,025,826
Housing construction bonds at fair value	197,866	199,672
Bonds issued by Pfandbriefbank at fair value	7,445	40,189
Supplementary capital at fair value	40,378	55,633
Deferred interest	12,953	34,403
Financial liabilities – designated at fair value	**1,310,885**	**2,826,384**

Repurchased own bonds of TEUR 18,791 (2016: TEUR 20,918) were deducted directly from financial liabilities designated at fair value.

Disclosures on changes in fair value

in TEUR	2017	2016
Carrying value	**1,310,885**	**2,826,384**
Amount repayable	1,218,322	2,655,412
Difference between carrying value and amount repayable	92,563	170,972
Total change in market value	**134,591**	**195,101**
of which due to market risk	119,499	185,007
of which due to credit risk	15,092	10,094
Change in market value in the reporting period	**-60,510**	**-35,354**
of which due to market risk	-65,508	-69,309
of which due to credit risk	4,998	33,955

In the calculation of the market value of "financial liabilities – LAFV", the credit spread is derived from market data. When determining the change in fair value due to credit risk, there is a nuanced assessment of financial instruments with regard to currency, maturity, placement type and collateral/risk structure. The change in fair value due to credit risk is determined using a model in which the change in fair value due to market risk is deducted from the total change in fair value.

(37) PROVISIONS

Provisions by type

in TEUR	31.12.2017	31.12.2016
Severance provisions	15,788	16,498
Pension provisions	5,189	5,814
Service anniversary provisions	2,236	2,222
Social capital	**23,213**	**24,534**
Provisions for guarantees/assumed liability	7,826	14,421
Provisions for credit risks	999	3,681
Provisions for ongoing litigation	1,226	1,284
Association obligation provisions	390	451
Provisions for other expenses	3,912	4,886
Other provisions	**14,353**	**24,723**
Provisions	**37,566**	**49,257**

A breakdown by maturity or the expected terms of resulting outflows is shown in Note (44).

Although guarantees and warranties are not shown on the balance sheet, the credit risk they pose is not insubstantial. To account for this default risk, provisions are recognised for customers with certain credit rating deterioration. If a contingent liability from a guarantee or warranty takes effect, we have the right to recourse from the guarantee holder. The collateral provided by the guarantee holder is therefore considered when recognising the provision. Therefore, an inflow of economic benefits in excess of the collateral is not expected.

Credit risk provisions are also intended to cover credit risk from undrawn borrowing facilities. Loans granted to customers but not yet drawn represent contingent liabilities. As these are not shown on the balance sheet, a loan loss provision is possible under provisions only. As they are loan commitments according to IAS 39.2(h), they come under the scope of IAS 37. Provisions for litigation include both the expected legal and consulting costs and the estimated payment obligations to the opposing party resulting from the proceedings.

Provisions for association obligation include pension payment obligations for employees of Hypo-Verband. These are reported under provisions and not social capital because they do not represent expenses for Group employees.

No specific assets or funding are in place for social capital, apart from the pension agreement for employees of the St. Gallen branch. For employees of the St. Gallen branch, the fund assets are invested by Swiss Life AG, Zürich, within the framework of the BVG collective foundation Swiss Life. The fund assets are professionally managed by Swiss Life AG and diversifying the risk is part of the investment strategy.

Employers and employees both pay their contributions into this fund. The fund assets and thus their measurement effects are therefore not included in these consolidated financial statements. Therefore, the provision recognises the net obligation from the present value of the defined benefit obligations less the fair value of the fund assets. Gains and losses from the allocation or reversal of provisions are shown directly in administrative expenses and other comprehensive income. For pension provisions, we are required by law to hold fixed interest securities as collateral for pension recipients' pension entitlements.

Development of social capital

in TEUR 2016	Severance provisions	Pension provisions	Service Anniversary provisions	Total
Present value 1 January	**17,310**	**5,994**	**2,194**	**25,498**
Years of service expense	562	351	194	1,107
Interest expense	326	101	44	471
Payments	-805	-587	-79	-1,471
Actuarial gains/losses	-895	-45	-131	-1,071
Present value 31 December	**16,498**	**5,814**	**2,222**	**24,534**

in TEUR 2017	Severance provisions	Pension provisions	Service Anniversary provisions	Total
Present value 1 January	**16,498**	**5,814**	**2,222**	**24,534**
Years of service expense	536	64	192	792
Interest expense	281	83	38	402
Payments	-559	-361	-58	-978
Actuarial gains/losses	-968	-308	-158	-1,434
Currency translation	0	-103	0	-103
Present value 31 December	**15,788**	**5,189**	**2,236**	**23,213**

The actuarial gains/losses from severance and pension provisions of TEUR1,276 (2016: TEUR 939) recognised in other comprehensive income are attributable to changes in financial assumptions.

For the defined benefit obligation for the employees of the St. Gallen branch, the components of the fund assets are described and the fund assets reconciled below.

Fund asset components

in TEUR	2017	2016
Fair value of assets from defined benefit plans	2,293	2,997
of which equity instruments	187	182
of which debt securities	1,728	2,338
of which properties	347	420
of which other assets from defined benefit plans	31	57
Present value of obligations from defined benefit plans	3,374	4,356
Net defined benefit obligation – St. Gallen branch	**1,081**	**1,359**

Reconciliation of fund assets

in TEUR	2017	2016
Fair value of assets from defined benefit plans on 1 January	**2,997**	**2,591**
Currency translation effects	-247	25
Interest income from assets	18	17
Gain/loss on remeasurement of assets	7	-198
Employer contribution payments	231	248
Employee contribution payments	154	165
Plan participant contribution payments	20	402
Disbursements	-887	-253
Fair value of assets from defined benefit plans on 31 December	**2,293**	**2,997**

Changes in other provisions

in TEUR 2016	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	21,468	6,302	2,707	524	4,790	35,791
Currency translation	4	-1	3	0	2	8
Allocation	9,358	2,729	1,415	4	5,460	18,966
Use	-386	-811	-1,055	-77	-368	-2,697
Reversal	-16,023	-4,538	-1,786	0	-4,998	-27,345
Carrying value 31 December	14,421	3,681	1,284	451	4,886	24,723

in TEUR 2017	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	14,421	3,681	1,284	451	4,886	24,723
Currency translation	-11	0	-23	0	-13	-47
Allocation	2,411	460	952	4	2,639	6,466
Use	-2,005	-154	-536	-65	-698	-3,458
Reversal	-6,990	-2,988	-451	0	-5,652	-16,081
Changes in the scope of consolidation	0	0	0	0	2,750	2,750
Carrying value 31 December	7,826	999	1,226	390	3,912	14,353

(38) TAX LIABILITIES

Tax liabilities – breakdown by type

in TEUR	31.12.2017	31.12.2016
Tax provision	9,803	19,497
Current tax liability	1	24
Tax liabilities	9,804	19,521

Development of the tax provision

in TEUR	2017	2016
Carrying amount 1 Jan.	19,497	14,252
Currency translation	-55	4
Allocation	9,159	19,206
Use	-18,746	-13,941
Reversal	-52	-24
Carrying amount 31 Dec.	9,803	19,497

The breakdown by maturity is shown in Note (44).

(39) DEFERRED TAX

In the table below, deferred tax assets are deducted from tax liabilities when they represent a liability in net terms in the respective tax entity. The breakdown by maturity is shown in Note (44).

in TEUR	31.12.2017	31.12.2016
Temporary differences from the measurement of financial instruments via the income statement	16,199	291
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	0	3,406
Temporary differences from writing down assets	2,867	2,524
Temporary differences from provisions	2,496	1,386
Other temporary differences	3,590	7,751
Deferred tax liabilities	**25,152**	**15,358**
Set-off of deferred taxes	-16,311	-12,680
Net deferred tax liabilities	**8,841**	**2,678**

Other temporary differences include TEUR 2,280 for the targeted sale of an investment. There are otherwise no outside basis differences within the Group.

(40) OTHER LIABILITIES

in TEUR	31.12.2017	31.12.2016
Liabilities in connection with social security	1,489	1,463
Other tax liabilities	6,986	29,986
Trade payments	11,832	9,700
Deferred liabilities	14,944	14,073
Other Liabilities	35,330	22,740
Other Liabilities	**70,581**	**77,962**

(41) SUBORDINATED CAPITAL (LAC)

Subordinated capital – breakdown by type of business

in TEUR	31.12.2017	31.12.2016
Subordinated capital	10,000	10,000
Supplementary capital	261,014	378,091
Deferred interest	1,190	924
Subordinated capital	**272,204**	**389,015**

In supplementary capital, the use of hedge accounting led to amortised costs of TEUR 147,205 (2016: TEUR 147,228) being adjusted by the hedged fair value of TEUR 7,345 (2016: TEUR 9,673). These hedges switch long-term fixedinterest positions to a variable interest rate.

Changes in Subordinated capital

in TEUR	2017	2016
Balance 1 January	**389,015**	**376,902**
New intake/sale from own holdings	48,546	11,169
Repayments	-163,340	-2,225
Change in deferred interest	266	288
Change from hedge accounting measurement	-2,283	2,881
Balance 31 December	**272,204**	**389,015**

(42) SHAREHOLDERS' EQUITY

Composition of equity – breakdown by type

in TEUR	31.12.2017	31.12.2016
Subscribed capital	165,453	165,453
Capital reserve	48,874	48,874
Retained earnings and other reserves	884,473	832,026
Revaluation reserves	9,216	8,548
of which AFS revaluation reserve	9,846	10,217
of which IAS 19 revaluation reserve	-630	-1,669
Reserves from currency translation	1	0
Total parent company shareholders	**1,108,017**	**1,054,901**
Non-controlling interests	10,562	38
Total equity	**1,118,579**	**1,054,939**

The subscribed capital comprises the share capital of TEUR 156,453 (2016: TEUR 156,453), which was fully paid-in. On 31 December 2017, 305,605 (2016: 305,605) shares with a nominal value of EUR 511.9452 were issued. The subscribed capital also includes the fully paid-in participation certificates issued in 2008 of TEUR 9,000 (2016: TEUR 9,000). On 31 December 2017, 1,000,000 (2016: 1,000,000) participation certificates with a nominal value of EUR 9.00 were issued. The participation certificates have no maturity and are not repayable. Distribution is based on a variable interest rate but can be carried out only if there is a sufficient distributable profit.

Retained earnings include the legal reserve. The reversal of the legal reserve amounting to TEUR 13,467 (2016: TEUR 13,437) is connected to the UGB.

Liable capital as per Section 57 (5) of the Austrian Banking Act is also reported under retained earnings. Liable capital amounting to TEUR 128,472 (2016: TEUR 128,479) may only be reversed in as much as this is necessary to fulfil obligations in accordance with Section 93 of the Austrian Banking Act or to cover other losses to be reported in the annual financial statements. Liable capital must be replenished to the extent of the amount reversed within the following five financial years at the latest.

Transfer of remeasurement reserves

in TEUR	AFS remeasurement reserve	IAS 19 remeasurement reserve	Total remeasurement reserves
Balance 1 January 2016	**9,517**	**-2,357**	**7,160**
Currency translation	0	-7	-7
Valuation in reserve	870	939	1,809
Recycling from reserve	64	0	64
Deferred taxes	-234	-244	-478
Balance 31 December 2016	**10,217**	**-1,669**	**8,548**
Balance 1 January 2017	**10,217**	**-1,669**	**8,548**
Currency translation	0	47	47
Valuation in reserve	-49	1,276	1,227
Recycling from reserve	-445	0	-445
Deferred taxes	123	-284	-161
Balance 31 December 2017	**9,846**	**-630**	**9,216**

Dividends of Hypo Vorarlberg Bank AG

Hypo Vorarlberg Bank AG can distribute a dividend no larger than the unappropriated surplus of TEUR 5,000 (2016: TEUR 15,000) reported in the separate financial statements according to BWG and UGB.

The net profit according to UGB posted by Hypo Vorarlberg Bank AG for the 2017 financial year amounted to TEUR 49,726 (2016: TEUR 98,390). After the allocation to reserves of TEUR 45,614 (2016: TEUR 109,484) and the addition of the retained profit of TEUR 888 (2016: TEUR 26,094), accumulated profits available for appropriation totalled TEUR 5,000 (2016: TEUR 15,000). Subject to approval by the shareholders' meeting, a dividend of EUR 10.00 (2016: EUR 43.50) is proposed per entitled share based on the shares and the associated share capital of TEUR 156,453 (2015: TEUR 156,453). The dividend distribution will therefore be TEUR 3,056 (2016: TEUR 13,294) for 305,605 (2015: 305,605) shares. For the participation certificates issued in 2008, profits are distributed on the basis of an agreed variable interest rate, provided the interest payments are covered by the previous year's profit.

(43) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

in TEUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2016						
Cash and balances with central banks	239,633	170	98,006	2	189	338,000
Loans and advances to banks	334,427	31,923	129,087	1,225	78,627	575,289
Loans and advances to customers	7,202,689	74,042	1,648,257	28,515	96,495	9,049,998
Positive market values of hedges	94,570	288	3,953	0	0	98,811
Trading assets and derivatives	226,011	1,389	34,709	42,870	4,335	309,314
Financial assets – designated at fair value	671,673	2,096	24,467	82,450	21,522	802,208
Financial assets – available for sale	602,275	67,127	89,311	0	10,380	769,093
Financial assets – held to maturity	1,047,595	52,333	0	0	3,965	1,103,893
Shares in companies valued at equity	34,750	0	0	0	0	34,750
Investment property	59,158	0	0	0	0	59,158
Intangible assets	1,814	0	197	0	0	2,011
Property, plant and equipment	73,929	0	983	0	0	74,912
Tax assets	824	0	0	0	0	824
Deferred tax assets	9,198	0	0	0	0	9,198
Other assets	96,675	41	33	0	179	96,928
Total assets	**10,695,221**	**229,409**	**2,029,003**	**155,062**	**215,692**	**13,324,387**

in TEUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2016						
Amounts owed to banks	536,762	2,197	11,546	3,044	6,828	560,377
Amounts owed to customers	4,845,192	200,114	199,791	2,441	34,559	5,282,097
Liabilities evidenced by certificates	2,357,072	0	260,764	0	64,431	2,682,267
Negative market values of hedges	95,238	5,803	19,748	1,560	24,498	146,847
Trading liabilities and derivatives	211,504	1,565	4,035	9,515	6,424	233,043
Financial liabilities – designated at fair value	1,965,533	0	619,905	240,946	0	2,826,384
Provisions	48,791	0	466	0	0	49,257
Tax liabilities	18,913	0	608	0	0	19,521
Deferred tax liabilities	2,678	0	0	0	0	2,678
Other liabilities	76,895	37	623	0	407	77,962
Subordinated capital	389,015	0	0	0	0	389,015
Shareholders' equity	1,054,939	0	0	0	0	1,054,939
Total liabilities and shareholders' equity	**11,602,532**	**209,716**	**1,117,486**	**257,506**	**137,147**	**13,324,387**

in TEUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2017						
Cash and balances with central banks	180,023	156	133,219	1	185	313,584
Loans and advances to banks	285,947	10,079	80,290	1,860	72,721	450,897
Loans and advances to customers	7,720,935	53,513	1,441,682	20,100	94,291	9,330,521
Positive market values of hedges	70,116	325	3,538	0	6	73,985
Trading assets and derivatives	165,289	20	14,851	6,840	3,940	190,940
Financial assets – designated at fair value	657,107	1,632	5,037	65,462	15,427	744,665
Financial assets – available for sale	579,605	34,768	38,760	0	33,465	686,598
Financial assets – held to maturity	1,034,046	45,397	0	0	22,060	1,101,503
Shares in companies valued at equity	4,195	0	0	0	0	4,195
Investment property	64,219	0	0	0	0	64,219
Intangible assets	33,568	0	346	0	0	33,914
Property, plant and equipment	72,059	0	749	0	0	72,808
Tax assets	1,037	0	0	0	0	1,037
Deferred tax assets	8,984	0	0	0	0	8,984
Other assets	104,467	36	60	0	107	104,670
Total assets	**10,981,597**	**145,926**	**1,718,532**	**94,263**	**242,202**	**13,182,520**

in TEUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2017						
Amounts owed to banks	1,590,897	2,966	53	1,511	3,537	1,598,964
Amounts owed to customers	4,842,482	150,037	146,210	3,367	33,565	5,175,661
Liabilities evidenced by certificates	2,926,139	4,177	288,401	0	78,056	3,296,773
Negative market values of hedges	83,627	3,212	11,905	980	19,317	119,041
Trading liabilities and derivatives	146,468	2,906	2,561	6,240	5,446	163,621
Financial liabilities – designated at fair value	1,000,303	0	294,443	16,139	0	1,310,885
Provisions	37,181	0	385	0	0	37,566
Tax liabilities	8,847	0	956	0	1	9,804
Deferred tax liabilities	8,841	0	0	0	0	8,841
Other liabilities	69,144	21	928	0	488	70,581
Subordinated capital	272,204	0	0	0	0	272,204
Shareholders' equity	1,118,579	0	0	0	0	1,118,579
Total liabilities and shareholders' equity	**12,104,712**	**163,319**	**745,842**	**28,237**	**140,410**	**13,182,520**

The difference between assets and liabilities in the individual currencies does not constitute the Group's open foreign exchange position according to Article 352 CRR. Open foreign exchange positions are hedged with derivative financial instruments such as currency swaps or cross-currency swaps. However, these hedges are not carried in the IFRS balance sheet at nominal value but at market value. The sum of all open foreign exchange positions according to Article 352 CRR was TEUR 4,552 as of 31 December 2017 (2016: TEUR 7,739).

Foreign-denominated assets and liabilities

in TEUR	31.12.2017	31.12.2016
Foreign assets	5,378,146	5,527,854
Foreign liabilities	3,238,947	5,057,842

(44) MATURITIES

in TEUR 31.12.2016	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	311,957	0	0	0	0	26,043	338,000
Loans and advances to banks	157,822	39,233	112,575	126,555	139,104	0	575,289
Loans and advances to customers	433,826	784,629	968,318	2,874,145	3,969,078	20,002	9,049,998
Positive market values of hedges	0	206	301	46,094	52,210	0	98,811
Trading assets and derivatives	0	19,345	68,003	60,161	161,144	661	309,314
Financial assets – designated at fair value	883	26,252	92,228	281,870	398,205	2,770	802,208
Financial assets – available for sale	1	76,298	116,027	279,953	268,221	28,593	769,093
Financial assets – held to maturity	0	89,729	110,100	434,411	469,653	0	1,103,893
Shares in companies valued at equity	0	0	0	0	0	34,750	34,750
Investment property	0	0	0	0	0	59,158	59,158
Intangible assets	0	0	0	0	0	2,011	2,011
Property, plant and equipment	0	0	0	0	0	74,912	74,912
Tax assets	61	101	662	0	0	0	824
Deferred tax assets	0	0	3	0	9,165	30	9,198
Other assets	13,051	27,160	639	2,620	447	53,011	96,928
Assets	**917,601**	**1,062,953**	**1,468,856**	**4,105,809**	**5,467,227**	**301,941**	**13,324,387**

in TEUR 31.12.2016	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Amounts owed to banks	220,944	56,320	11,523	12,821	258,769	0	560,377
Amounts owed to customers	3,439,838	661,659	178,026	718,654	283,920	0	5,282,097
Liabilities evidenced by certificates	160	26,488	330,942	682,106	1,642,571	0	2,682,267
Negative market values of hedges	0	3,391	4,190	40,285	98,981	0	146,847
Trading liabilities and derivatives	0	3,130	4,267	86,514	139,132	0	233,043
Financial liabilities – designated at fair value	0	398,977	1,049,599	798,458	579,350	0	2,826,384
Provisions	1	121	14,020	11,535	21,714	1,866	49,257
Tax liabilities	162	0	19,359	0	0	0	19,521
Deferred tax liabilities	5	40	8,997	-16,850	-10,881	21,367	2,678
Other liabilities	35,648	31,688	5,564	3,497	733	832	77,962
Subordinated capital	0	0	162,170	170,038	56,807	0	389,015
Shareholders' equity	0	0	0	0	0	1,054,939	1,054,939
Total Liabilities and Shareholders' equity	**3,696,758**	**1,181,814**	**1,788,657**	**2,507,058**	**3,071,096**	**1,079,004**	**13,324,387**

in TEUR 31.12.2017	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	288,193	0	0	0	0	25,391	313,584
Loans and advances to banks	113,496	28,568	62,745	134,762	111,326	0	450,897
Loans and advances to customers	611,359	784,801	1,230,052	2,890,999	3,782,337	30,973	9,330,521
Positive market values of hedges	0	0	2,697	41,024	30,264	0	73,985
Trading assets and derivatives	0	2,468	9,883	44,197	134,342	50	190,940
Financial assets – designated at fair value	0	7,832	57,388	265,416	354,779	59,250	744,665
Financial assets – available for sale	1	25,475	35,357	348,125	248,723	28,917	686,598
Financial assets – held to maturity	0	35,509	38,575	589,143	438,276	0	1,101,503
Shares in companies valued at equity	0	0	0	0	0	4,195	4,195
Investment property	0	0	0	0	0	64,219	64,219
Intangible assets	0	0	0	0	0	33,914	33,914
Property, plant and equipment	0	0	0	0	0	72,808	72,808
Tax assets	137	204	1	695	0	0	1,037
Deferred tax assets	0	0	0	0	8,984	0	8,984
Other assets	21,100	27,136	5,621	2,083	454	48,276	104,670
Assets	**1,034,286**	**911,993**	**1,442,319**	**4,316,444**	**5,109,485**	**367,993**	**13,182,520**

in TEUR 31.12.2017	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Amounts owed to banks	241,152	295,714	34,755	1,006,024	21,319	0	1,598,964
Amounts owed to customers	3,537,124	544,346	324,704	518,730	250,757	0	5,175,661
Liabilities evidenced by certificates	105	10,558	179,505	1,849,008	1,257,597	0	3,296,773
Negative market values of hedges	0	971	1,215	40,343	76,512	0	119,041
Trading liabilities and derivatives	0	2,094	2,492	55,564	103,471	0	163,621
Financial liabilities – designated at fair value	0	13,029	114,875	428,190	754,791	0	1,310,885
Provisions	32,774	0	5	0	2,641	2,146	37,566
Tax liabilities	117	0	9,687	0	0	0	9,804
Deferred tax liabilities	2,292	17,688	-6,768	-8,973	-20,975	25,577	8,841
Other liabilities	43,515	10,641	6,047	3,601	1,594	5,183	70,581
Subordinated capital	0	0	43,451	118,572	110,181	0	272,204
Shareholders' equity	0	0	0	0	0	1,118,579	1,118,579
Total Liabilities and Shareholders' equity	**3,857,079**	**895,041**	**709,968**	**4,011,059**	**2,557,888**	**1,151,485**	**13,182,520**

D. FURTHER IFRS INFORMATION

(45) DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method. The net cash flow from operating activities is calculated on the basis of consolidated net profit after adding expenses and deducting income that did not affect cash in the financial year. All expenses and income that did affect cash but are not attributable to operating activities are also eliminated. These payments are included in cash flow from investing or financing activities.

(46) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities

in TEUR	31.12.2017	31.12.2016
Liabilities from financial guarantees	308,055	318,242
Other contingent liabilities	19,467	29,054
Contingent liabilities	327,522	347,296

Contingent liabilities – breakdown by residual duration

in TEUR	31.12.2017	31.12.2016
Repayable on demand	244	35
Up to 3 months	30,542	21,363
Up to 1 year	86,536	92,066
Up to 5 years	110,491	94,261
More than 5 years	27,887	39,080
Unlimited	71,822	100,491
Contingent liabilities – breakdown by residual duration	327,522	347,296

Contingent liabilities from financial guarantees represent commitments to third parties to assume liability for our customers. If the guarantee holder fails to meet its contractual obligations, the beneficiary may utilise the Bank's financial guarantee. In turn, the Bank is able to claim recourse from its customers. The amounts shown represent the maximum amount that could lead to a payment in the event of utilisation. The recognition of contingent liabilities in connection with financial guarantees is difficult, because the utilisation of the commitment cannot be predicted or plausibly estimated. Other contingent liabilities constitute certain trust activities and documentary credit transactions.

Besides the contingent liabilities described above, there are also the following contingent obligations:"

Obligation from the membership of the deposit insurance company "Hypo-Haftungs-Gesellschaft m.b.H." required under Section 8 of the Austrian Federal Act on Deposit Protection and Investor Compensation at Banks (ESAEG)

In accordance with Section 8 (1) ESAEG, Hypo Vorarlberg, as an institution that accepts deposits (CRR institution) based in Austria, is a member of the standard protection scheme pursuant to Section 1 (1) No. 1 ESAEG. In accordance with the transitional provisions of Section 59 No. 3 ESAEG, Hypo-Haftungs-GmbH, which is based at the professional association of Landes-Hypothekenbanken, is fulfilling the function of a protection scheme until 31 December 2018. Each protection scheme must establish a deposit protection fund based on available financial resources with a target level of at least 0.8% of the total covered deposits of the member institutions. The required contribution depends on the amount of deposits covered based on previously defined risk factors (risk-based contribution calculation). The share contributed by Hypo Vorarlberg was calculated at TEUR 1,640 (previous year: TEUR 1,079). Furthermore, should the protection scheme be utilised Hypo-Haftungs-GmbH is required to collect special contributions from its member institutions if the fund's resources are not sufficient to cover depositors' claims. In accordance with Section 22 (1) ESAEG these special contributions may amount to an annual maximum of 0.5% of the covered deposits in question. As of 1 January 2019 the tasks of the sectoral protection scheme will be transferred to the standard protection scheme to be established by the Austrian Economic Chamber (WKO). The standard protection scheme will also take over the duties of the protection schemes of the professional associations of banks, bankers and Volksbanken (credit unions) at that time.

Liability for the liabilities of "Pfandbriefbank (Österreich) AG"

All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for the above liabilities amounting to TEUR 71,625 (2016: TEUR 1,929,509). In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability

- Unlimited for liabilities incurred up to 2 April 2003
- Limited for liabilities incurred after 2 April 2003 and up to 1 April 2007 if maturity does not exceed 30 September 2017.

Hypo Vorarlberg Bank AG holds the liabilities shown in the table below in trust on behalf of Pfandbriefbank (included in the above liabilities of Pfandbriefbank).

Liabilities to Pfandbriefbank

in TEUR	31.12.2017	31.12.2016
Liabilities evidenced by certificates	0	175,876
Financial liabilities – designated at fair value	7,545	128,134
Liabilities to Pfandbriefbank	7,545	304,010

Credit risks per Section (14) Austrian Banking Act (BWG)

in TEUR	31.12.2017	31.12.2016
Credit commitments and unutilised credit lines	1,791,891	1,836,215
Credit risks	1,791,891	1,836,215

These credit risks include loans granted but not yet drawn upon by customers. This primarily includes loan commitments but also unutilised credit lines. The credit risks were recognised at nominal value.

(47) INTEREST-FREE LOANS AND ADVANCE

in TEUR	31.12.2017	31.12.2016
Loans and advances to banks	36,136	43,843
Loans and advances to customers	111,482	142,406
Interest-free loans and advances	**147,618**	**186,249**

Interest-free loans and advances to banks mainly constitute non-interest-bearing balances at clearing houses and receivables from payment transactions. Loans and advances to customers are classified as interest-free when the collection of interest payments in future periods can no longer be expected. Sufficient valuation allowances have already been recognised for these loans and advances.

(48) COLLATERAL

Assets provided as collateral

in TEUR	31.12.2017	31.12.2016
Loans and advances to banks	286,960	350,981
Loans and advances to customers	4,537,061	4,013,007
Financial assets – designated at fair value	527,313	603,911
Financial assets – available for sale	549,905	517,976
Financial assets – held to maturity	1,022,353	786,302
Assets provided as collateral	**6,923,592**	**6,272,177**
of which covered pool for mortgage bonds	2,952,712	2,640,374
of which covered pool for public-sector mortgage bonds	792,075	1,048,257

The collateral holder is not entitled to sell or repledge the collateral listed. Therefore, there were no reclassifications on the balance sheet for the collateral provided. Loans and advances to banks include collateral deposits from other banks that were provided as collateral in derivative business. Loans and advances to customers include the covered pool for issued and public-sector mortgage bonds. The assets – at fair value and assets – held to maturity provided as collateral relate to a securities account at Oesterreichische Kontrollbank, which is required for participating in refinancing from Oesterreichische Nationalbank.

As a collateral holder, the Bank does not hold collateral that it is permitted to sell in the absence of default by the owner or repledge without the owner's permission.

Assignment and use of collateral

in TEUR	Assignment of collateral	
	31.12.2017	31.12.2016
Backing for refinancing with central banks	1,016,645	1,068,320
Covered pool for mortgage bonds	3,693,486	3,245,023
Covered pool for public-sector mortgage bonds	885,047	1,189,138
Surplus cover for mortgage bonds and municipal bonds	80,632	58,959
Covered pool for trust savings deposits	33,808	29,239
Cover for pension provisions	2,125	2,149
Genuine repurchase agreements – repos	1,029,222	508,466
Deposits, collateral, margins	182,627	170,883
Collateral – breakdown by assignment	**6,923,592**	**6,272,177**

in TEUR	Use of collateral	
	31.12.2017	31.12.2016
Backing for refinancing with central banks	1,032,510	269,385
Covered pool for mortgage bonds	2,620,055	1,320,055
Covered pool for public-sector mortgage bonds	605,364	743,839
Surplus cover for mortgage bonds and municipal bonds	80,632	58,959
Covered pool for trust savings deposits	26,696	27,140
Cover for pension provisions	2,125	2,149
Genuine repurchase agreements – repos	137,646	0
Deposits, collateral, margins	182,627	170,882
Collateral – breakdown by assignment	**4,687,655**	**2,592,409**

In the tables above, the previous year's figures in the disclosures on the covered pool for mortgage bonds and public-sector mortgage bonds have been adjusted so that they now recognise the carrying amount of the assigned assets rather than the eligible amount under the Austrian Pfandbrief Act (PfandbriefG).

(49) SUBORDINATED ASSETS

in TEUR	31.12.2017	31.12.2016
Loans and advances to banks	25,505	28,076
Loans and advances to customers	4,771	3,070
Financial assets – designated at fair value	6,923	10,905
Financial assets – available for sale	38,697	34,596
Financial assets – held to maturity	0	10,447
Subordinated assets	75,896	87,094

(50) FIDUCIARY TRANSACTIONS ADVANCES

in TEUR	31.12.2017	31.12.2016
Loans and advances to customers	64,718	65,551
Fiduciary assets	64,718	65,551
Amounts owed to banks	49,334	46,388
Amounts owed to customers	16,006	19,932
Fiduciary liabilities	65,340	66,320

(51) REPURCHASE AGREEMENTS

in TEUR	31.12.2017	31.12.2016
Amounts owed to banks	137,646	0
Total deposits (Repos)	137,646	0
Debt securities – AFV	5,075	0
Debt securities – AFS	47,148	0
Debt securities – HTM	89,586	0
Total provided Collateral (Repos)	141,809	0

(52) RELATED PARTY DISCLOSURES

Related parties include:

- The owners of Vorarlberger Landesbank-Holding and Austria Beteiligungsgesellschaft mbH and their owners,
- The Managing Board and Supervisory Board of Hypo Vorarlberg Bank AG and their next of kin,
- Managing directors of consolidated subsidiaries and their next of kin,
- Senior employees of the subsidiaries of Hypo Vorarlberg Bank AG and their next of kin,
- Senior employees of Hypo Vorarlberg Bank AG as defined by Section 80 of the Austrian Stock Corporation Act (AktG) and their next of kin,
- Legal representatives and members of the supervisory bodies of significant shareholders,
- Subsidiaries and other companies in which Hypo Vorarlberg Bank AG holds a stake,
- Companies over which related parties exert significant influence.

Advances, loans and warranties

At the end of the year, the Managing Board members and managing directors and their next of kin had received advances, loans and warranties amounting to TEUR 5,362 (2016: TEUR 6,936) at the customary terms and conditions for Bank employees. At the end of the year, the Supervisory Board members and their next of kin had received advances, loans and warranties amounting to TEUR 20,654 (2016: TEUR 21,929) for themselves and for companies for which they are employeesly liable at the customary terms and conditions for the Bank or for Bank employees.

Remuneration

The Managing Board members' annual remuneration comprises a fixed sum and a variable component. In some cases, variable remuneration determined individually by the Managing Board has also been agreed for managing directors and senior employees. There are no share-based remuneration schemes.

In 2017, Hypo Vorarlberg Bank AG spent the following amounts for the active Managing Board members.

in TEUR	2017	2016
Michel Haller	321	254
Johannes Hefel	249	254
Wilfried Amann	271	0
Michael Grahammer	0	473
Managing Board remuneration	841	981

Remuneration paid to related parties

in TEUR	2017	2016
Managing Board members and managing directors	1,844	1,853
Retired Managing Board members and survivors	65	64
Managerial personnel	4,499	4,767
Supervisory Board members	197	166
Remuneration paid to related parties	6,605	6,850

Severance and pensions

The expenses for severance and pensions to related parties comprise the amounts shown in the table below.

in TEUR	2017	2016
Managing Board members and managing directors	128	-31
Managerial personnel	527	715

The Group purchased services amounting to TEUR 61 (2016: TEUR 67) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

in TEUR	31.12.2017	31.12.2016
Loans and advances to customers	2,076	3,177
Loans and advances	2,076	3,177
Amounts owed to customers	434	207
Liabilities	434	207

Transactions with related companies include loans and credits and business current accounts for our non-consolidated subsidiaries. The receivables generally have an interest rate of 0.25% (2016: 0.25%). One current account with a carrying amount of TEUR 1,436 (2016: TEUR 845) bears interest at a rate of 0.25% (2016: 0.5%). Liabilities generally have an interest rate of 0.02% (2016: 0.02%). As at the reporting date, one guarantee (2016: zero) in the amount of TEUR 10 (2016: TEUR 0) was assumed for affiliated companies.

Income and expenses from affiliated companies

in TEUR	2017	2016
Interest income	8	11
Fee and commission income	2	2
Total income/expenses from affiliated companies	**10**	**13**

Business relationships with associated companies

in TEUR	31.12.2017	31.12.2016
Loans and advances to customers	12,950	49,241
Trading assets and derivatives	61	1,037
Financial assets	12	266
Loans and advances	**13,023**	**50,544**
Amounts owed to banks	1,522	1,814
Amounts owed to customers	617	1,694
Liabilities	**2,139**	**3,508**

Transactions with associated companies include loans, cash advances, credits, business current accounts, savings deposits and time deposits. These transactions are concluded at standard market conditions. As at the reporting date, no warranties were assumed for associated companies, as in the previous year. We have also concluded derivative transactions with associated companies in the form of interest rate options and interest rate swaps with a nominal value of TEUR 3,000 (2016: TEUR 9,000), which serve these companies as an interest rate cap in connection with long-term financing. In turn, the Group has hedged these options written with options purchased from other counterparties.

Income and expenses from significant shareholders

in TEUR	2017	2016
Interest income	240	1,302
Interest expenses	-1	-17
Fee and commission income	2	5
Total income/expenses from affiliated companies	**241**	**1,290**

Business relationships with shareholders

in TEUR	31.12.2017	31.12.2016
Loans and advances to banks	169	9,532
Loans and advances to customers	46,619	35,779
Trading assets and derivatives	53,284	71,308
Financial assets	53,184	59,716
Loans and advances	**153,256**	**176,335**
Amounts owed to banks	10,359	0
Amounts owed to customers	9,558	39,738
Trading liabilities and derivatives	46,047	73,474
Liabilities	**65,964**	**113,212**

The term shareholder refers to the two holding companies with a direct equity holding in Hypo Vorarlberg Bank AG, as well as the indirect shareholders, the state of Vorarlberg, Landesbank Baden-Württemberg and Landeskreditbank Baden-Württemberg Förderbank. Transactions with shareholders with significant influence primarily include loans, cash advances, credits, business current accounts, savings deposits and time deposits. We have also concluded derivative transactions with a nominal value of TEUR 2,139,892 (TEUR 2,429,930) with Landesbank Baden-Württemberg to hedge against market price risks. The positive market values of derivatives are partly hedged in connection with cash collateral. There is usually no collateral for the remaining loans and advances. All of these transactions were concluded at standard market conditions.

Income and expenses from significant shareholders

in TEUR	2017	2016
Interest income	26,074	31,589
Interest expenses	-17,104	-21,857
Fee and commission income	1,764	1,558
Fee and commission expenses	-12	0
Other expenses	-1,090	-1,366
Total income/expenses from significant shareholders	**9,632**	**9,924**

Shareholders of Hypo Vorarlberg Bank AG (no changes to previous year)

Shareholders	Interest	Voting rights
Vorarlberger Landesbank-Holding	76.0308 %	76.0308 %
Austria Beteiligungsgesellschaft mbH	23.9692 %	23.9692 %
- Landesbank Baden-Württemberg	15.9795 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.9897 %	
Share capital	**100.0000 %**	**100.0000 %**

Because of its competence as a housing bank, Hypo Vorarlberg Bank AG has been appointed by the state of Vorarlberg to administer the state housing construction fund. The Bank pays the state of Vorarlberg a liability fee of TEUR 1,090 for its public guarantee (2016: TEUR 1,366). The Group is not in a permanent business relationship with Austria Beteiligungsgesellschaft mbH. Numerous transactions typical of a banking relationship have been conducted with Landesbank Baden-Württemberg.

Business relationship with state-related companies

in TEUR	31.12.2017	31.12.2016
Loans and advances to customers	85,749	57,892
Trading assets and derivatives	426	0
Financial assets	3,041	0
Receivables	**89,216**	**57,892**
Amounts owed to customers	10,198	64,201
Liabilities	**10,198**	**64,201**

Transactions with state-related companies include loans and credits, business current accounts and time deposits, and a security designated as L&R. These transactions were concluded at standard market conditions.

Income and expenses from state-related companies

in TEUR	2017	2016
Interest income	654	573
Interest expenses	-100	-222
Fee and commission income	311	197
Total income/expenses from state-related companies	**865**	**548**

There were no doubtful debts due from related parties in financial year 2017 or the comparative period. Therefore, neither provisions nor expenses were required for impairment or write-downs on debts due from related parties.

(53) SHARE-BASED PAY ARRANGEMENTS

There is only one share option scheme within the Group, at Innovacell Biotechnologie AG, in which the management was granted the one-time right to acquire 116,385 shares at a price of EUR 7.00 following a successful inflow of capital into the company. This option right has existed since 30 November 2013 and will lapse upon expiry on 1 December 2018; it was granted free of charge. The holders may also exercise their option in multiple tranches within the option period. In any case the price for exercising the option must be paid in the form of cash equivalents. There are no further conditions with respect to exercising, extending or terminating the option scheme. The exercise price of the option exceeds the calculated NAV that is used for recognising the carrying amount of the investment, which is why it is unlikely that the option will be exercised at present. The status of the options has not changed and none of the options were exercised or lapsed during the reporting period.

(54) HUMAN RESOURCES

	2017	2016
Full-time salaried staff	634	628
Part-time salaried staff	93	88
Apprentices	8	7
Full-time other employees	2	2
Average number of employees	**737**	**725**

(55) SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No particularly significant developments occurred during the period between the end of the 2017 financial year and the preparation of the consolidated financial statements and their affirmation by the auditors that could affect the truest possible presentation of the net assets, financial position and results of operations of the Group.

E. SEGMENT REPORTING

Reporting by business segment

in TEUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2017	93,597	29,586	5,992	30,085	159,260
	2016	89,960	35,485	6,986	35,407	167,838
Loan loss provisions	2017	10,402	1,251	-267	-1,329	10,057
	2016	8,526	151	12,069	26,961	47,707
Net fee and commission income	2017	12,833	17,523	2,242	2,235	34,833
	2016	12,265	17,227	2,485	2,050	34,027
Result from hedge relationships	2017	0	0	-458	0	-458
	2016	0	0	1,674	0	1,674
Net trading result (without change in own credit risk)	2017	304	1,868	7,954	-653	9,473
	2016	2,364	1,490	23,921	223	27,998
Result from other financial instruments	2017	0	0	3,530	1,600	5,130
	2016	429	0	4,338	6,046	10,813
Administrative expense	2017	-33,511	-42,599	-9,391	-14,451	-99,952
	2016	-33,846	-41,424	-9,033	-12,811	-97,114
Other income	2017	3,778	1,664	3	23,926	29,371
	2016	5,413	627	72	14,898	21,010
Other expenses	2017	-3,477	-3,714	-4,969	-17,018	-29,178
	2016	-18,847	-8,177	-19,759	-18,047	-64,830
Result from equity consolidation	2017	0	0	0	-17,661	-17,661
	2016	0	0	0	2,451	2,451
Operating result before change in own credit risk	**2017**	**83,924**	**5,579**	**4,636**	**6,736**	**100,875**
	2016	**66,264**	**5,379**	**22,753**	**57,178**	**151,574**
Result from change in own credit risk	2017	0	0	-5,123	0	-5,123
	2016	0	0	-33,955	0	-33,955
Earnings before taxes	**2017**	**83,924**	**5,579**	**-487**	**6,736**	**95,752**
	2016	**66,264**	**5,379**	**-11,202**	**57,178**	**117,619**
Assets	2017	6,114,239	1,940,752	3,561,560	1,565,969	13,182,520
	2016	5,772,814	1,994,650	3,992,595	1,564,328	13,324,387
Liabilities and shareholders' equity	2017	2,175,131	3,159,631	7,152,800	694,958	13,182,520
	2016	2,310,832	3,200,631	7,095,789	717,135	13,324,387
Liabilities (incl. own issues)	2017	1,754,510	3,068,630	6,842,661	398,140	12,063,941
	2016	1,912,516	3,109,884	6,820,063	426,985	12,269,448

For the purposes of business management, the Group is organised into business units according to customer and product groups and has the four reportable business segments described below. No business segments have been combined to form these reportable business segments. The management monitors the business units' earnings before taxes separately in order to make decisions on the allocation of resources and to determine the profitability of the units. The segments' performance is assessed on the basis of earnings before taxes and measured in accordance with earnings before taxes in the consolidated financial statements.

Internal reporting is carried out according to these segments on the basis of both the Austrian Corporate Code (UGB) and International Financial Reporting Standards (IFRS). For this reason, no separate reconciliation is required. The liabilities shown in the segments include liabilities, provisions and social capital as well as social capital as well as subordinated capital. Revenue is not calculated per product and service or for groups of similar products and services because of the inordinately high implementation costs that would be required to ascertain this data.

Net interest income is determined per segment on the basis of the internationally accepted Schierenbeck market interest rate method. The effective interest rate is compared to a benchmark interest rate with regard to both receivables and liabilities. The resulting margin contribution is credited to the individual segments. The structure contribution determined from the maturity transformation is assigned to the Financial Markets segment. For this reason, it is not possible to show interest income and interest expenses separately. As the income and expenses per segment are determined directly, there are no transactions or allocations between the segments. In the Corporate Centre segment, an amount of TEUR 4,195 (2016: TEUR 34,750) was included in assets from consolidation according to the equity method.

Corporate Customers
The Corporate Customers segment comprises customers active in the commercial, industrial and trade sectors. Both large customers and small- and medium-sized enterprises are covered by this segment. In addition, income and expenses arising in connection with business relationships with public institutions (federal, state and local governments) are recognised in this segment. Customers of the St. Gallen branch are also assigned to this segment irrespective of customer type or sector. However, self-employed persons whose businesses do not exceed the size of a sole proprietorship are not included. With regard to product groups, this segment includes loans, credits, cash advances, current accounts, demand deposits, term deposits and savings deposits vis-à-vis the above customer groups. Net fee and commission income also includes the income from custodian business with these customer groups.

Private Customers
This segment covers all employees (private households) and some self-employed persons (freelancers). This segment does not include the private households and freelancers of the St. Gallen branch, as these are all covered by the Corporate Customers segment. In addition, earnings contributions from insurance companies and pension funds are also counted towards this segment. This segment does not include private persons closely associated with a business (Corporate Customers) as an owner or shareholder. With regard to product groups, this segment includes loans, credits, cash advances, current accounts, demand deposits, term deposits and savings deposits vis-à-vis the above customer groups. Net fee and commission income also includes the income from custodian business with these customer groups.

Financial Markets
This segment includes financial assets, trading assets, derivative financial instruments, issuing business and profit or loss from interbank relations. The profit or loss from the custodian bank function is also allocated to this segment. With regard to product groups, this segment primarily includes financial assets in the form of securities and occasionally promissory note loans. Similarly, funds raised from issues of securities and a few large-volume term deposits are also allocated to the Financial Markets segment. Net fee and commission income also includes the income from custodian business in connection with the custodian bank function.

Corporate Centre
All banking transactions with our subsidiaries and associated companies are reported in this segment. Products and income of our online branch hypodirekt.at are likewise recognised in this segment. In addition, income from activities that do not constitute banking business is also allocated to this segment, such as leasing business, insurance brokerage, leasing and utilisation of real estate, real estate brokerage, facility management services, other services and income from subsidiaries and investments.

Recognition and reversal of impairment

in TEUR		Corporate Customers	Private Customers	Financial Markets	Coporate Center	Total
Recognition of impairments	2017	-16,713	-853	-250	-4,853	-22,669
	2016	-24,355	-1,878	-196	-7,336	-33,765
Reversals of impairments	2017	26,572	1,786	2,526	2,651	33,535
	2016	44,952	2,075	20,807	20,478	88,312

Reporting by region

in TEUR		Austria	Other countries	Total
Net interest income	2017	136,052	23,208	159,260
	2016	143,386	24,452	167,838
Loan loss provisions	2017	14,669	-4,612	10,057
	2016	52,663	-4,956	47,707
Loan loss provisions	2017	34,234	599	34,833
	2016	33,539	488	34,027
Result from hedge relationships	2017	-458	0	-458
	2016	1,674	0	1,674
Net trading result (without change in own credit risk)	2017	9,024	449	9,473
	2016	27,551	447	27,998
Result from other financial instruments	2017	5,130	0	5,130
	2016	10,813	0	10,813
Administrative expenses	2017	-90,201	-9,751	-99,952
	2016	-86,893	-10,221	-97,114
Other income	2017	23,530	5,841	29,371
	2016	15,214	5,796	21,010
Other expenses	2017	-20,980	-8,198	-29,178
	2016	-56,687	-8,143	-64,830
Result from equity consolidation	2017	-17,661	0	-17,661
	2016	2,451	0	2,451
Operating result before change in own credit risk	**2017**	**93,339**	**7,536**	**100,875**
	2016	**143,711**	**7,863**	**151,574**
Result from change in own credit risk	2017	-5,123	0	-5,123
	2016	-33,955	0	-33,955
Earnings before taxes	**2017**	**88,216**	**7,536**	**95,752**
	2016	**109,756**	**7,863**	**117,619**
Assets	2017	11,590,473	1,592,047	13,182,520
	2016	11,706,923	1,617,464	13,324,387
Liabilities and shareholders' equity	2017	12,995,961	186,559	13,182,520
	2016	13,143,154	181,233	13,324,387
Liabilities (incl. own issues)	2017	11,944,963	118,978	12,063,941
	2016	12,156,106	113,342	12,269,448

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(56) EARNINGS BY MEASUREMENT CATEGORY

Result of financial assets

in TEUR 2016	Loans and Receiv-ables	Assets held for trading	Assets at Fair Value	Assets available for Sale	Assets held to Maturity	Total Assets
Interest and similar income	173,962	38,560	7,228	21,743	23,817	265,310
Net interest income	**173,962**	**38,560**	**7,228**	**21,743**	**23,817**	**265,310**
Depreciation, amortisation and impairment	-21,260	-23	-5,798	-178	0	-27,259
Write-ups and impairment reversals	65,579	46	21,262	1,975	197	89,059
Realised losses	-1,733	0	-6,398	-257	-33	-8,421
Realised gains	4,158	26	69	932	0	5,185
Trading results	0	3,781	0	0	0	3,781
Remeasurement of derivatives	0	-142,852	0	0	0	-142,852
Net result from hedge accounting	924	0	0	217	0	1,141
Total	**221,630**	**-100,462**	**16,363**	**24,432**	**23,981**	**185,944**
Gains/losses recognised in other comprehensive income	0	0	0	934	0	934

in TEUR 2017	Loans and Receiv-ables	Assets held for trading	Assets at Fair Value	Assets available for Sale	Assets held to Maturity	Total Assets
Interest and similar income	167,608	43,309	6,193	16,457	20,408	253,975
Net interest income	**167,608**	**43,309**	**6,193**	**16,457**	**20,408**	**253,975**
Depreciation, amortisation and impairment	-18,815	-25	-21,646	-183	0	-40,669
Write-ups and impairment reversals	21,084	35	839	2,159	307	24,424
Realised losses	-2,122	0	-2,568	-523	0	-5,213
Realised gains	5,102	16	4,017	1,606	0	10,741
Trading results	0	4,766	0	0	0	4,766
Remeasurement of derivatives	0	-95,757	0	0	0	-95,757
Net result from hedge accounting	328	0	0	289	0	617
Total	**173,185**	**-47,656**	**-13,165**	**19,805**	**20,715**	**152,884**
Gains/losses recognised in other comprehensive income	0	0	0	-494	0	-494

Result of financial liabilities

in TEUR 2016	Liabilities at Cost	Liabilities held for trading	Liabilities at Fair Value	Total Liabilities
Interest and similar expenses	-60,779	-49,005	12,312	-97,472
Net interest income	**-60,779**	**-49,005**	**12,312**	**-97,472**
Depreciation, amortisation and impairment	-227	0	2,590	2,363
Write-ups and impairment reversals	319	0	67,381	67,700
Realised losses	-53	0	-587	-640
Realised gains	627	0	1,259	1,886
Remeasurement of derivatives	0	87,242	0	87,242
Net result from hedge accounting	533	0	0	533
Total	**-59,580**	**38,237**	**82,955**	**61,612**

in TEUR 2017	Liabilities at Cost	Liabilities held for trading	Liabilities at Fair Value	Total Liabilities
Interest and similar expenses	-60,010	-46,345	11,640	-94,715
Net interest income	**-60,010**	**-46,345**	**11,640**	**-94,715**
Depreciation, amortisation and impairment	-91	0	-771	-862
Write-ups and impairment reversals	49	0	66,282	66,331
Realised losses	-75	0	-378	-453
Realised gains	112	0	163	275
Remeasurement of derivatives	0	54,500	0	54,500
Net result from hedge accounting	-1,075	0	0	-1,075
Total	**-61,090**	**8,155**	**76,936**	**24,001**

(57) DISCLOSURES ON FAIR VALUE

in TEUR	(Notes)	31.12.2017 Fair Value	31.12.2017 Carrying amount	31.12.2016 Fair Value	31.12.2016 Carrying amount
Assets					
Cash and balances with central banks	(15)	323,253	313,584	338,062	338,000
Loans and advances to banks	(16)	456,457	450,897	575,778	575,289
Loans and advances to customers	(17)	10,146,973	9,330,521	9,606,817	9,049,998
Positive market values of hedges	(18)	73,985	73,985	98,811	98,811
Trading assets and derivatives	(19)	190,940	190,940	309,314	309,314
Financial assets – designated at fair value	(20)	744,665	744,665	802,208	802,208
Financial assets – available for sale	(21)	686,598	686,598	769,093	769,093
Financial assets – held to maturity	(22)	1,141,451	1,101,503	1,159,244	1,103,893
Liabilities					
Amounts owed to banks	(31)	1,587,001	1,598,964	555,349	560,377
Amounts owed to customers	(32)	5,212,914	5,175,661	5,323,774	5,282,097
Liabilities evidenced by certificates	(33)	3,299,929	3,296,773	2,669,732	2,682,267
Negative market values of hedges	(34)	119,041	119,041	146,847	146,847
Trading liabilities and derivatives	(35)	163,621	163,621	233,043	233,043
Financial liabilities – designated at fair value	(36)	1,310,885	1,310,885	2,826,384	2,826,384
Subordinated capital	(41)	281,569	272,204	391,124	389,015

Loans and advances to banks primarily relate to interbank transactions, whose current carrying amounts largely correspond to the fair value. The fair value of fixed-interest transactions with banks was determined on the basis of expected future cash flows.

In the case of loans and advances to customers, the fair value of the fixed-interest transactions was likewise determined on the basis of expected future cash flows taking current market interest rates into account.

In the case of financial assets – held to maturity (HTM), the fair value was determined on the basis of available market prices and quotes. If no reliable market price was available for an asset as of the reporting date, the fair value was determined on the basis of market prices of similar financial instruments with comparable yields, credit risks and maturities.

As amounts owed to banks only relate to interbank transactions, the carrying amount shown largely equates to fair value. The fair value of fixed-interest transactions was determined on the basis of expected future cash flows taking current market interest rates and credit spreads into account.

The repayment amount recognised for variable-rate amounts owed to customers without agreed maturities largely also corresponds to the current market value. The fair value of fixed-interest positions was determined on the basis discounted cash flows.

The fair value of liabilities evidenced by certificates and subordinated capital was recognised on the basis of available market prices and quotes. If no market prices were available for this category, the fair value was measured on the basis of discounted future cash flows taking current market interest rates and credit spreads into account.

To the extent available, the fair values reported in the financial statements were determined exclusively using measurement techniques based on prices of similar instruments in observable market transactions.

Fair value hierarchy for financial instruments not recognised at fair value

in TEUR 31.12.2016	Level 1	Level 2	Level 3	Total
Cash and balances with central banks	338,062	0	0	338,062
Loans and advances to banks	403,132	0	172,646	575,778
Loans and advances to customers	306,448	25,285	9,275,084	9,606,817
Financial assets – held to maturity	1,146,916	0	12,328	1,159,244
Assets measured at amortised cost	**2,194,558**	**25,285**	**9,460,058**	**11,679,901**
Liabilities to banks	0	0	555,349	555,349
Amounts owed to customers	0	0	5,323,774	5,323,774
Liabilities evidenced by certificates	2,494,187	37,995	137,550	2,669,732
Subordinated capital	345,826	28,758	16,540	391,124
Liabilities measured at amortised cost	**2,840,013**	**66,753**	**6,033,213**	**8,939,979**

in TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Cash and balances with central banks	323,253	0	0	323,253
Loans and advances to banks	295,992	0	160,465	456,457
Loans and advances to customers	319,013	0	9,827,960	10,146,973
Financial assets – held to maturity	1,139,666	0	1,785	1,141,451
Assets measured at amortised cost	**2,077,924**	**0**	**9,990,210**	**12,068,134**
Liabilities to banks	0	0	1,587,001	1,587,001
Amounts owed to customers	0	0	5,212,914	5,212,914
Liabilities evidenced by certificates	2,737,496	0	562,433	3,299,929
Subordinated capital	216,514	48,727	16,328	281,569
Liabilities measured at amortised cost	**2,954,010**	**48,727**	**7,378,676**	**10,381,413**

The measurement techniques for financial instruments not carried at fair value do not usually differ from those use for financial instruments that are carried at fair value. The measurement techniques used are described in more detail in Note (3c). Changes and enhancements of measurement techniques are also outlined there.

Fair value hierarchy for financial instruments recognised at fair value

in TEUR 31.12.2016	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	97,487	1,324	98,811
Trading assets and derivatives	661	251,026	57,627	309,314
Financial assets – designated at fair value	71,713	571,374	159,121	802,208
Financial assets – available for sale	714,900	0	54,193	769,093
Total assets measured at fair value	**787,274**	**919,887**	**272,265**	**1,979,426**
Reclassification of assets from level 2 and 3 to level 1	7,500	-7,500	0	0
Reclassification of assets from level 1 and 3 to level 2	0	171,149	-171,149	0
Derivative hedging instruments	0	136,488	10,359	146,847
Trading liabilities and derivatives	0	220,083	12,960	233,043
Financial liabilities – designated at fair value	428,047	683,453	1,714,884	2,826,384
Total liabilities measured at fair value	**428,047**	**1,040,024**	**1,738,203**	**3,206,274**
Reclassification of liabilities from level 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from level 1 and 3 to level 2	-361,059	365,444	-4,385	0

in TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	73,898	87	73,985
Trading assets and derivatives	50	134,431	56,459	190,940
Financial assets – designated at fair value	50,518	515,827	178,320	744,665
Financial assets – available for sale	626,267	5,010	55,321	686,598
Total assets measured at fair value	**676,835**	**729,166**	**290,187**	**1,696,188**
Reclassification of assets from level 2 and 3 to level 1	12,935	-12,935	0	0
Reclassification of assets from level 1 and 3 to level 2	0	0	0	0
Derivative hedging instruments	0	111,898	7,143	119,041
Trading liabilities and derivatives	0	159,427	4,194	163,621
Financial liabilities – designated at fair value	123,771	324,361	862,753	1,310,885
Total liabilities measured at fair value	**123,771**	**595,686**	**874,090**	**1,593,547**
Reclassification of liabilities from level 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from level 1 and 3 to level 2	0	0	0	0

In the case of financial assets and liabilities recognised in the financial statements on a recurring basis, the Group determines whether transfers have taken place between hierarchy levels by examining their classification – based on the input parameter of the lowest level that is essential for fair value measurement – at the end of each reporting period. To do so, the Group uses a decision tree defined in the internal measurement guidelines.

The Group has one valuation committee for financial instruments and one valuation committee for real estate. These committees specify guidelines and procedures for recurring and non-recurring fair value measurements. The Head of Asset and Liability Management, the Head of Group Risk Controlling, the Head of Debt Capital Markets and a financial mathematician belong to the valuation committee for financial instruments. Once a year, the valuation committee examines the performance of financial instruments that need to be remeasured in accordance with the Group's accounting policies. The valuation committee reviews the key input factors that were applied during the last measurement by comparing the results of the measurement calculations with external sources in order to assess whether the respective changes and therefore the internal input parameters are plausible. If necessary, the valuation committee will decide to adjust or expand the internal input factors in order to attain the goal of ensuring the most objective measurement of financial instruments possible. The valuation committee for real estate comprises a managing director from Hypo Immobilien & Leasing GmbH, a managing director from Hypo Vorarlberg Immo Italia srl, the Head of Accounting from Hypo Vorarlberg and an employee from the property appraisal department. External appraisers are brought in to value important properties. The valuation committee decides annually whether external appraisers are to be consulted. Following meetings with external appraisers, the valuation committee for real estate decides which measurement techniques and input factors are to be used in each individual case.

The reclassification of assets from Level 2 to Level 1 comprises one (2016: one) AFV category financial instrument with a carrying value of TEUR 12,935 (2016: TEUR 7,500). Instead of a derived market valuation, OTC secondary market price sources now available from Bloomberg were used to measure this financial instrument.

The reclassification of assets from Level 3 to Level 2 comprises one (2016: eight) AFV category financial instrument, one HFT category derivative (2016: one) and 16 derivatives reported under the positive market values of hedges item with a carrying value of TEUR 4,636 (2016: TEUR 170,185). The AFV security has a carrying value of TEUR 3,417 (2016: TEUR 36,978), the HFT derivative a carrying value of TEUR 27 (2016: TEUR 964) and the derivatives reported under the positive market values of hedges item a carrying value of TEUR 1,191 (2016: TEUR 0). Measurement of these items relied exclusively on relevant input factors observable on the market. In the previous year measurement of the credit spread was based on internal input factors. The AFV financial instruments were reclassified in 2016 because the credit spread was no longer calculated based on the weighted credit spread matrix but rather on the basis of the external rating and the security structure of comparable financial instruments. The HFT derivatives were reclassified because of the use of available OTC secondary market price sources from Bloomberg. The carrying value at the end of the previous year was TEUR 4,743 (2016: TEUR 157,247) for the AFV category financial instruments, TEUR 5 (2016: TEUR 1,918) for the derivatives reported under the trading assets and derivatives item and TEUR 1,172 (2016: TEUR 0) for the derivatives reported under the positive market values of hedges item.

The reclassification of assets from Level 1 to Level 3 comprised one AFS category financial instrument in 2016. The carrying value in the previous year amounted to TEUR 10,877. The market price used in 2015 was replaced with an internal measurement model in 2016, as no market data were available for the financial instrument and derivation on the basis of the composition of the fund is not suitable.

In 2017 the reclassification of assets from Level 2 to Level 3 comprised two (2016: zero) derivatives reported under the trading assets and derivatives item with a carrying value of TEUR 17,232 (2016: TEUR 0). The two derivatives were transferred to Level 3 as their measurement is no longer based exclusively on input factors observable on the market. For this reason they are measured using an internal measurement model. At the end of the previous year, the carrying value for the derivatives was TEUR 18,202 (2016: TEUR 0).

The reclassification of liabilities from Level 1 to Level 2 comprised zero (2016: one) LAFV category financial instruments. In the previous year the financial instrument had a carrying value of TEUR 361,059. Because no OTC secondary market price was available from Bloomberg, a derived market valuation was used.

The reclassification of liabilities from Level 3 to Level 2 comprised zero (2016: one) LAFV category financial instruments with a carrying value of TEUR 0 (2016: TEUR 3,695), four (2016: three) derivatives reported under the trading liabilities and derivatives item in the amount of TEUR 5,280 (2016: TEUR 690) and six (2016: zero) derivatives reported under the negative market values of hedges item with a carrying value of TEUR 2,781 (2016: TEUR 0). Measurement of the derivatives reclassified in 2017 relied exclusively on relevant input factors observable on the market. In the previous year measurement of the credit spread was based on internal input factors.

For the reclassifications in 2016 the internal model used for measuring the LAFV category issues was switched to the internal DCF method, which bases the measurement on derived input factors observable on the market.

At the end of the previous year the carrying value of the items reclassified in 2017 was TEUR 2,332 (2016: TEUR 0) for the derivatives reported under the negative market values of hedges item and TEUR 6,565 (2016: TEUR 90) for the trading liabilities and derivatives item. The carrying value of the LAFV category financial instruments reclassified in the 2016 financial year was TEUR 4,314 in 2015.

In 2016 the reclassification of liabilities from Level 2 to Level 3 comprised one LAFV category issue with a carrying value of TEUR 5,102. The reclassification was necessary because no input factors observable on the market were available for this issue, and the measurement was therefore made on the basis of an internal measurement model. The carrying value of the LAFV category financial instrument reclassified in the 2016 financial year was TEUR 3,754.

Fair value hierarchy for financial assets – breakdown by class

in TEUR 31.12.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	96,901	1,277	98,178
Cross-currency swaps	0	586	47	633
Derivative hedging instruments	**0**	**97,487**	**1,324**	**98,811**
Interest rate swaps	0	202,085	54,454	256,539
Cross-currency swaps	0	45,817	0	45,817
Interest rate options	0	1,157	1,243	2,400
Currency options	0	176	0	176
Foreign exchange forwards	0	1,791	1,930	3,721
Investment funds	661	0	0	661
Trading assets and derivatives	**661**	**251,026**	**57,627**	**309,314**
Bonds	68,943	257,688	8,837	335,468
Investment fonds	2,770	0	0	2,770
Other	0	0	5,634	5,634
Loans and credits	0	313,686	144,650	458,336
Financial assets – designated at fair value	**71,713**	**571,374**	**159,121**	**802,208**
Bonds	711,853	0	20,146	731,999
Investment funds	3,047	0	2,788	5,835
Shares	0	0	110	110
Other	0	0	31,149	31,149
Financial assets – available for sale	**714,900**	**0**	**54,193**	**769,093**

in TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	72,151	87	72,238
Cross-currency swaps	0	1,747	0	1,747
Derivative hedging instruments	**0**	**73,898**	**87**	**73,985**
Interest rate swaps	0	106,672	52,447	159,119
Cross-currency swaps	0	25,417	364	25,781
Interest rate options	0	918	1,295	2,213
Currency options	0	3	0	3
Foreign exchange forwards	0	1,421	2,353	3,774
Investment funds	50	0	0	50
Trading assets and derivatives	**50**	**134,431**	**56,459**	**190,940**
Bonds	47,802	241,715	0	289,517
Investment fonds	2,716	0	0	2,716
Shares	0	0	56,535	56,535
Loans and credits	0	274,112	121,785	395,897
Financial assets – designated at fair value	**50,518**	**515,827**	**178,320**	**744,665**
Bonds	623,222	5,010	19,447	647,679
Investment funds	3,045	0	3,275	6,320
Shares	0	0	110	110
Other	0	0	32,489	32,489
Financial assets – available for sale	**626,267**	**5,010**	**55,321**	**686,598**

Fair value hierarchy for financial liabilities – breakdown by class

in TEUR 31.12.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	106,706	3,751	110,457
Cross-currency swaps	0	29,782	6,608	36,390
Derivative hedging instruments	**0**	**136,488**	**10,359**	**146,847**
Interest rate swaps	0	131,804	8,566	140,370
Cross-currency swaps	0	84,616	2,925	87,541
Interest rate options	0	1,838	108	1,946
Currency options	0	147	30	177
Foreign exchange forwards	0	1,678	1,331	3,009
Trading liabilities and derivatives	**0**	**220,083**	**12,960**	**233,043**
Deposits	0	0	716,141	716,141
Bonds	428,047	663,553	962,708	2,054,308
Subordinated capital	0	19,900	36,035	55,935
Financial liabilities – designated at fair value	**428,047**	**683,453**	**1,714,884**	**2,826,384**

in TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	96,331	1,003	97,334
Cross-currency swaps	0	15,567	6,140	21,707
Derivative hedging instruments	**0**	**111,898**	**7,143**	**119,041**
Interest rate swaps	0	105,041	1,704	106,745
Cross-currency swaps	0	50,863	1,341	52,204
Interest rate options	0	1,435	107	1,542
Currency options	0	0	3	3
Foreign exchange forwards	0	2,088	1,039	3,127
Trading liabilities and derivatives	**0**	**159,427**	**4,194**	**163,621**
Deposits	0	0	180,911	180,911
Bonds	123,771	305,492	660,107	1,089,370
Subordinated capital	0	18,869	21,735	40,604
Financial liabilities – designated at fair value	**123,771**	**324,361**	**862,753**	**1,310,885**

Changes in Level 3 financial instruments

in TEUR 2016	Opening balance	Purchases/ issues	Sales/ repayments	Addition from Level 1 and Level 2	Reclassification to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	361	0	0	0	0	963	1,324
Trading assets and derivatives	71,381	0	0	0	-1,918	-11,836	57,627
Financial assets – designated at fair value	366,046	0	0	0	-157,247	-49,678	159,121
Financial assets – available for sale	40,655	139	0	10,877	0	2,522	54,193
Level 3 assets measured at fair value	**478,443**	**139**	**0**	**10,877**	**-159,165**	**-58,029**	**272,265**
Derivative hedging instruments	9,666	0	0	0	0	693	10,359
Trading liabilities and derivatives	8,013	0	0	0	-90	5,037	12,960
Financial liabilities – designated at fair value	1,781,158	15,000	-98,612	5,102	-4,314	16,550	1,714,884
Level 3 liabilities measured at fair value	**1,798,837**	**15,000**	**-98,612**	**5,102**	**-4,404**	**22,280**	**1,738,203**

in TEUR 2017	Opening balance	Purchases/ issues	Sales/ repayments	Addition from Level 1 and Level 2	Reclassification to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	1,324	0	0	0	1,172	-2,409	87
Trading assets and derivatives	57,627	0	0	17,232	-38	-18,362	56,459
Financial assets – designated at fair value	159,121	56,535	-13,214	0	-3,566	-20,556	178,320
Financial assets – available for sale	54,193	699	-284	0	0	713	55,321
Level 3 assets measured at fair value	**272,265**	**57,234**	**-13,498**	**17,232**	**-2,432**	**-40,614**	**290,187**
Derivative hedging instruments	10,359	0	0	0	2,333	-5,549	7,143
Trading liabilities and derivatives	12,960	0	0	0	-6,565	-2,201	4,194
Financial liabilities – designated at fair value	1,714,884	20,100	-834,648	0	0	-37,583	862,753
Level 3 liabilities measured at fair value	**1,738,203**	**20,100**	**-834,648**	**0**	**-4,232**	**-45,333**	**874,090**

The changes in fair value given relate only to financial instruments that were still held in Level 3 at the end of the reporting period. The changes in fair value shown in the tables above represent gains/losses of financial instruments that were allocated to Level 3 at the end of the year. The changes in the fair value of derivative hedging instruments, which were recognised on the assets side at TEUR -2,409 (2016: TEUR 963), were recognised in the net result on hedge accounting. The changes in the fair value of trading assets and derivatives of TEUR -18,362 (2016: TEUR -11,836) were recognised under the net trading result in the income statement. The change in the fair value of financial assets designated at fair value of TEUR -20,556 (2016: TEUR -49,678) was recognised under the net trading result in the income statement. The change in the fair value of financial assets available for sale of TEUR 713 (2016: TEUR 2,522) was recognised through profit or loss in the income statement under the net result from other financial instruments at TEUR 2,041 (2016: TEUR 2,216) and in other comprehensive income at TEUR -1,328 (2016: TEUR 306). The changes in the fair value of derivative hedging instruments, which were recognised on the liabilities side at TEUR -5,549 (2016: TEUR 693), were recognised in the net result on hedge accounting. The changes in the fair value of trading liabilities and derivatives of TEUR -2,201 (2016: TEUR 5,037) were recognised under the net trading result. Changes in the fair value of financial liabilities designated at fair value amounted to TEUR -37,583 (2016: TEUR 16,550), of which TEUR 40,312 (2016: TEUR -3,293) was recognised under the net trading result and TEUR 2,729 (2016: TEUR 19,843) was recognised under the result from change in own credit risk.

Disclosures regarding sensitivity of internal input factors

in TEUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivatives	195	376	-285	-547
Financial assets – designated at fair value	524	896	-423	-1,015
of which loans and credits	524	896	-423	-1,015
Financial assets – available for sale	65	176	-81	-218
Financial liabilities – designated at fair value	-5,230	-7,234	5,230	7,234
of which issues	-4,022	-4,800	4,022	4,800
of which time deposits	-1,208	-2,434	1,208	2,434
Total	**-4,446**	**-5,786**	**4,441**	**5,454**

The internal input factor that is relevant to financial assets is derived by calculating the credit risk, expressed as credit spread. If CDS spreads are available for a counterparty, the credit risk is measured based on these available input factors. However, if a CDS spread is not observable, the credit risk is measured using the internally calculated default probability combined with the internal rating. In the case of the above sensitivity, the internal ratings were each shifted by one level in parallel.

The internal input factor that is relevant to financial liabilities is derived by determining the current issue level of private placements compared to public placements. In the case of the above sensitivity, the recognised credit spreads were each shifted in parallel by 10 basis points.

(58) DISCLOSURES ON OFFSETTING FINANCIAL INSTRUMENTS

in TEUR 31.12.2016	Financial assets (gross)	Recognised amounts set off (gross)	Financial assets (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	397,666	0	397,666	-244,728	-117,565	35,373
Total assets	**397,666**	**0**	**397,666**	**-244,728**	**-117,565**	**35,373**
Negative market values of derivative financial instruments	379,890	0	379,890	-244,728	-128,121	7,041
Total liabilities	**379,890**	**0**	**379,890**	**-244,728**	**-128,121**	**7,041**

in TEUR 31.12.2017	Financial assets (gross)	Recognised amounts set off (gross)	Financial assets (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	264,732	0	264,732	-149,850	-90,835	24,047
Total assets	**264,732**	**0**	**264,732**	**-149,850**	**-90,835**	**24,047**
Negative market values of derivative financial instruments	282,662	0	282,662	-149,850	-94,910	37,902
Total liabilities	**282,662**	**0**	**282,662**	**-149,850**	**-94,910**	**37,902**

(59) IMPAIRMENTS AND IMPAIRMENT REVERSALS

Recognition of impairments

in TEUR	2017	2016
Loans and advances to customers	-18,815	-21,260
Financial assets – available for sale	-183	-178
Total	**-18,998**	**-21,438**

Reversals of impairment

in TEUR	2017	2016
Loans and advances to customers	21,084	65,579
Financial assets – available for sale	2,159	1,975
Financial assets – held to maturity	307	197
Total	**23,550**	**67,751**

(60) RECATEGORISED ASSETS

Disclosures on securities recategorised in 2008 and 2009

No financial assets were recategorised in 2017. 65 securities with a market value of TEUR 368,632 on the date of recategorization and 12 securities with a market value on the date of recategorization of TEUR 360,000 were reclassified from the category AFS to the category L&R in 2008 and 2009 respectively. The carrying amounts and market values of all previously recategorized financial instruments were as follows on 31 December 2017.

in TEUR 31.12.2016	Carrying amount	Market value	Amortised cost	Remeasurement reserve *)
Loans and advances to customers	22,171	22,710	22,171	-123
Total	**22,171**	**22,710**	**22,171**	**-123**

in TEUR 31.12.2017	Carrying amount	Market value	Amortised cost	Remeasurement reserve *)
Loans and advances to customers	15,072	15,301	15,072	-1
Total	**15,072**	**15,301**	**15,072**	**-1**

*) Already adjusted for deferred taxes

The actual gains, losses, income and expenses from the reclassified financial instruments recognised in the consolidated financial statements amounted to:

in TEUR	2017	2016
Net interest income	15	36
Net result from financial instruments	101	92
Taxes on income	-29	-32
Recording in AFS reserve directly in equity*	-311	-135
Gain/loss – after reclassification	**-224**	**-39**

*) adjusted for deferred tax effects

In 2017, no impairment was recognised on the securities recategorised in 2008 (2016: none). In 2017, impairment created in previous years amounting to TEUR 132 (2016: TEUR 136) was reversed following a recovery in the market and repayments at nominal value. The effect of the reversal of the remeasurement reserve as a result of maturity and the timing of the recategorized securities held is offset by the discounting of the amortised cost remeasured at the recategorisation date of the reclassified securities recorded in the net result from other financial instruments.

If the assets had not been reclassified, the following gains and losses would have resulted from continued measurement at fair value.

Simulation without recategorisation in 2008 and 2009

in TEUR	2017	2016
Net interest income	15	36
Net result from financial instruments	101	92
Taxes on income	-29	-32
Recording in AFS reserve directly in equity*	84	71
Gain/loss – after reclassification	**171**	**167**

*) adjusted for deferred tax effects

If the assets had not been recategorised, the main impact would have been on the adjustment of the remeasurement reserve outside profit or loss. However, this effect does not come from the securities reclassified in 2009 but the ABS products reclassified in 2008.

(61) FINANCIAL INSTRUMENTS BY CATEGORY

Financial instruments are presented according to measurement category in the corresponding notes to the balance sheet items, as we already distinguish between the measurement categories as per IAS 39 on the balance sheet.

G. FINANCIAL RISKS AND RISK MANAGEMENT

The full disclosure on the organisational structure, risk management and the risk capital situation according to CRR are posted on the internet at www.hypovbg.at.

(62) OVERALL RISK MANAGEMENT

The Group's operations involve the following risks:

- Credit risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods, currency or concentration risks in lending business and counterparty default risks. Risks could also arise in connection with securitisation activities.
- Market risks: The common characteristic of these risks is that they result from price changes in money and capital markets. Market price risks are categorised as interest rate, spread change, stock price, foreign currency or commodity risks.
- Liquidity risk: Liquidity risks can be broken down into maturity and retrieval risks, structural liquidity risk (rollover financing risk) and market liquidity risk. Maturity risk is an unplanned extension of maturities in the lending business. Retrieval risk is the risk that credit commitments are unexpectedly utilised or deposits withdrawn. As a result, a bank may no longer be able to fully meet its payment obligations. Structural liquidity risk arises from the possibility that the required roll-over financing may only be available at less favourable conditions, or not at all. Market liquidity risk is in evidence when positions can only be sold immediately by taking a loss.
- Operational risk: This includes the risk of direct or indirect losses caused by human error, process deficits, technological failure, or external influence. Operational risks also include legal risk.
- Shareholder risk: This covers items including private equity, mezzanine financing, subordinated financing and investments in funds with these components. This also includes subordinated banking securities.
- Real estate risk: This refers to the risk of fluctuations in the value of property owned by the Group. This especially includes properties which serve as collateral (including leased assets) and cannot be sold promptly to third parties as part of realisation ("foreclosed assets"). This does not include owner-occupied properties.
- Risk of excessive indebtedness: This means the risk of a total capital ratio that is too low.
- Money laundering and financing of terrorism: The Group continues to counter this risk by all countermeasures provided.
- Macroeconomic risk: macroeconomic risks are potential losses due to exposure to macroeconomic risk factors.
- Model risks: model risk is the risk of significantly underestimating the capital backing for material risks in the Capital Adequacy Process as a result of incorrect input parameters, incorrect assumptions, incorrect models or incorrect application of such models.
- Other risks: These include above all those types of risks for which only rudimentary or no quantification methods exist. Specifically, strategic, reputation, equity, performance and business risks and risks from repayment vehicles in the lending business may be classified as other risks.

The Group manages these risks in order to limit the overall bank risk. The Managing Board is responsible for the overall risk management of Hypo Vorarlberg Bank AG. Accordingly, it approves the principles of risk control and the risk measurement procedures. Additionally, it determines the willingness to take risks and defines limits for all relevant types of risk based on risk-absorbing capacity.

The Group regularly reviews the effects of economic and market developments on its income statement and net assets.

The overall risk management of Hypo Vorarlberg is based on a strict separation between Front Office and Back Office. The risk management functions of Hypo Vorarlberg are bundled under the responsibility of the Managing Board member responsible for risk management. Risk controlling at Hypo Vorarlberg is developed and implemented by group risk controlling. This unit measures credit risks, market risks, liquidity risks and operational risks on a group level. The independent assessment and approval of credit applications is carried out by the credit management departments for corporate and private customers.

The Bank's risk situation and the Capital Adequacy Process are addressed by the Asset & Liability Management Committee (ALM). In this committee, the Managing Board decides on market risk measurement procedures, defines interfaces between Sales and Treasury with regard to the market interest rate method, and the level of market risk and liquidity limits. In addition to the Managing Board as a whole and Corporate and Private Customers Sales, Group Risk Controlling, Controlling, and Treasury departments are also present at committee meetings.

The strategies, procedures and approaches adopted for the management of risks are documented in writing. The Group maintains a risk management manual and a credit manual, which are available to all employees. These manuals are updated on a regular basis. Additionally, the Bank has outlined all relevant work processes in written procedures that are likewise available to all employees.

(63) MARKET RISK

The objective of the Group's Asset & Liability Management is the optimal management of market risks. The strict separation of trading units and units and risk control ensures the objective assessment of the risks incurred and the early detection of unfavourable developments. The risks are assessed on a daily basis by Group Risk Controlling, which reports the results of the analyses to the units responsible.

With a focus on better customer service the individual bank maintains a small trading portfolio within the meaning of Article 94 CRR.

Asset and liability management is controlled via a standard reference interest rate system using the market interest rate method. The reference interest rate set determines the distribution of interest income and expenses among branch offices and treasury. Fixed interest rates are therefore determined annually by the Managing Board as a central controlling instrument. The selected fixed interest rates are reviewed regularly and adjusted as necessary, especially for products without contractual maturities (savings deposits and current accounts).

Measurement of market risk is based on three methods, which are all calculated centrally for the individual bank:

- Value at risk
- Change in the present value of equity in stress tests
- Simulations of structural contribution as part of scenario analysis (earnings perspective)

Value at risk indicates the maximum loss at a given probability and holding period. The Bank measures value at risk using SAP software and a historical simulation with the following parameters:

Historical simulation parameters	
Historical period	250 trading days
Holding period	10 trading days
Confidence level	99 %

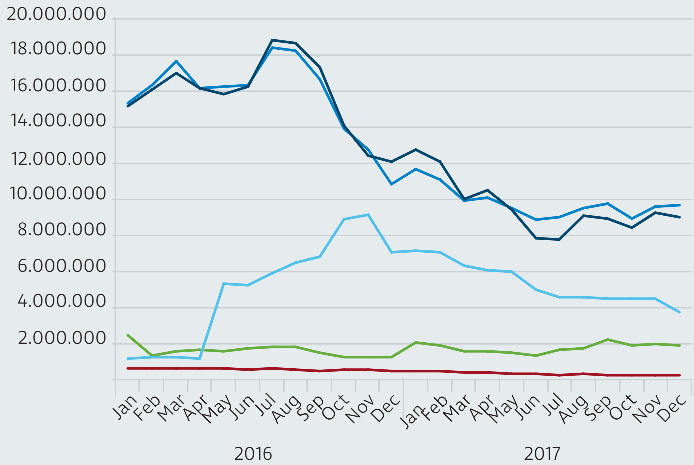
The VaR limit defines the maximum loss the Group is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis in line with the ICAAP. In addition, limits are defined for various yield curves, currency pairs, credit spread risks and equity position risks, for example.

The Group conducts stress tests in order to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain an absolute worst case scenario. Stress test limits are derived from the Capital Adequacy Process calculation.

The Group uses risk-adjusted yield curves to calculate present value key figures. In addition to the present value key figures, the Group regularly carries out gap analyses to manage the fixed interest rates on the money and capital markets.

Foreign currency risk is relatively small, as open positions are generally disposed of. The Group is subject to very little equity risk. Otherwise the Group only holds shares to present sample portfolios in connection with asset management. The volume is minimal.

Development of mean VaR



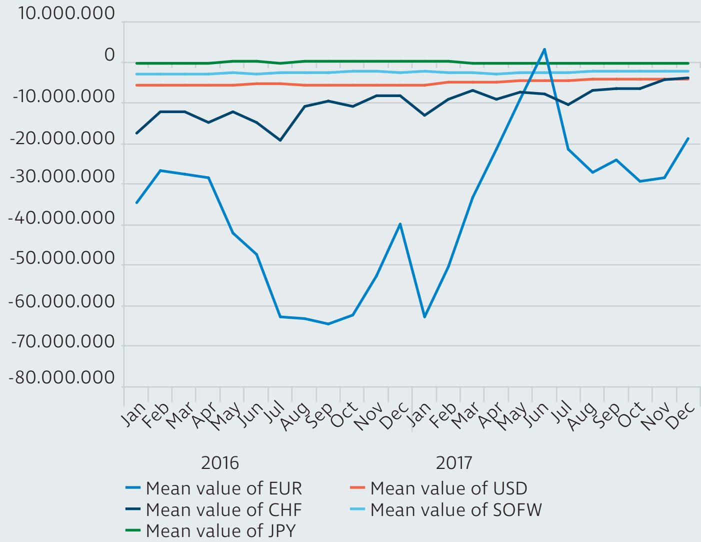
in TEUR 2016	Mean value of VaR-total	Mean value of VaR-interest	Mean value of VaR-FX	Mean value of VaR-equity	Mean value of VaR-credit spreads
May	16,234	15,791	1,585	606	5,297
Jun	16,361	16,263	1,732	586	5,231
Jul	18,453	18,808	1,782	600	5,915
Aug	18,273	18,659	1,814	526	6,467
Sep	16,670	17,309	1,442	506	6,775
Oct	13,944	14,084	1,240	511	8,878
Nov	12,731	12,389	1,254	534	9,178
Dec	10,857	12,060	1,179	486	7,050

in TEUR 2017	Mean value of VaR-total	Mean value of VaR-interest	Mean value of VaR-FX	Mean value of VaR-equity	Mean value of VaR-credit spreads
Jan	11,644	12,740	2,024	444	7,178
Feb	11,104	12,049	1,883	428	7,054
Mar	9,891	10,023	1,522	350	6,282
Apr	10,081	10,463	1,526	344	6,088
May	9,513	9,379	1,444	331	5,998
Jun	8,840	7,815	1,325	263	5,012
Jul	8,948	7,737	1,669	248	4,527
Aug	9,498	9,042	1,713	285	4,522
Sep	9,701	8,925	2,259	257	4,486
Oct	8,873	8,384	1,915	239	4,483
Nov	9,593	9,213	1,945	219	4,476
Dec	9,659	8,988	1,878	217	3,701

The VaR for individual risk types developed as follows over the past two years (NB: as of May 2016, the credit spread risk was calculated for the entire bond portfolio; prior to this it was calculated for the fair value portfolio only).

The change in prevent value resulting from a 200 basis point shift in yield curves developed as follows over the past two years.

Development of present value loss due to 200 basis point shift



(64) CREDIT RISK

The Group's medium-term credit risk objectives and policies are set down in writing in the risk strategy. The analysis factors in the overall bank strategy, business policy requirements, risk adequacy and lending risks. This results in specific, medium-term objectives regarding the portfolio structure and clear limits for all relevant risks (large exposures, foreign currency components, etc.).

The principles of risk behaviour in the lending business are:

- Generally speaking, the borrowing capacity and creditworthiness of the customer must be examined for each decision regarding the assumption of credit risks and the recoverability of the loan documented where borrowing capacity is not sufficient. There is no mere name-lending without this requirement being met.
- Business relationships with a direct and material connection to undesirable sectors that are not acceptable on moral or ethical grounds, such as pornography, prostitution, drug trafficking and primary weapons production, are to be avoided. In general, business is to be conducted on the basis of morally acceptable customer relationships.
- The Group wishes to avoid cluster risks in terms of sectors, regions, currencies and individual customers.
- The pricing of loans should be commensurate with credit rating and risk.
- Attempts are made to obtain higher collateral for low rating classes.
- The objective is to reduce loans with a foreign currency risk for the customer both in absolute terms and in relation to total volume.
- The objective is to reduce loans with repayment vehicles and final maturity loans with the exception of defined products such as the Lebenszeit- und Lebenswertkredit.

The Group calculates the expected loss (EL) for its entire credit portfolio. The Bank has programmed its own solution based on the Capital Requirements Directive and Basel III IRB approach to calculate economic capital or unexpected loss (UL).

The Bank wants to limit lending in countries where systemic or transfer risk cannot be ruled out. For this purpose, the Managing Board sets country limits that are monitored continuously and regularly reported to the Managing Board. The customer group 'banks' is assigned separate volume limits. Banks are important business partners in money market and derivative trading, for example, to whom high-volume and sometimes very short-term loans are extended. These limits are also monitored and reported to the Managing Board on a regular basis.

High limits and line utilisation are reported to the Supervisory Board once a year. Various rating modules specifically configured for the different customer groups are employed in the corporate customer business to measure factors relevant to credit ratings in the different customer segments. These systems meet the Basel III requirements for internal rating systems and the requirements of the FMA's Minimum Standards for the Credit Business (FMA-MSK) for risk classification systems. As a result, borrowers are rated on a 25-level scale (1a to 5e), the last five ratings (5a to 5e) being default levels. The individual ratings are linked to estimated one-year default probabilities. Ratings 1a to 2e denote excellent to very good credit ratings, ratings 3a to 3e stand for medium credit ratings, and ratings 4a to 4e indicate increased default risk. The treasury generally has access to external ratings. If no external ratings are available for a business partner, the Back Office produces an internal rating. External ratings are allocated to the internal rating scale. Rating class 1 is only envisaged for business partners with a very good external rating from a rating agency.

Credit decisions are made according to the dual-control principle. Policies are in place for each area to govern rating and volume authorisations for Front Office and Back Office. A second opinion on the decision is usually required from Back Office.

The Bank uses the Basel III definition of default to determine default events. All rating tools feature functions for recording default events. If a default event occurs, the customer in question is assigned a default rating (rating class 5). The Bank uses an early-warning event recovery system to clearly identify payments that are 90 days in arrears. The system initiates a standardised workflow that compels Front Office and Back Office to address cases of late payment. If a case is not resolved within 90 days, it is normally transferred to Central Credit Management (restructuring).

The Bank fully addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and prudent recognition of specific valuation allowances. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria. Loan loss provisions are recognised on the basis of estimates regarding the amount of future credit losses and interest rebates. A loan is to be recognised as impaired when it is likely based on observable criteria that not all interest and repayment obligations will be met in accordance with the contract. The impairment amount equates to the difference between the carrying amount of the loan and the present value of estimated future cash flows including recoverable, discounted collateral. The total amount of loan loss provisions relating to balance sheet receivables is openly deducted from loans and advances to banks and customers. In contrast, loan loss provisions for off-balance sheet items (guarantees, endorsement liabilities, credit commitments) are shown as credit risk provisions. Non-collectable receivables are written down directly. Recoveries on loans previously written down are recognised through profit or loss.

The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide.

The total exposure includes balance sheet receivables but also contingent liabilities such as open commitments or warranties.

Segments broken down by rating (maximum default risk)

in TEUR 31.12.2016		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Exposure	Corporate Customers	756,967	2,051,050	4,131,874	109,968	167,593	5,847	7,223,299
	Private Customers	2,041	841,998	1,175,064	28,317	32,653	28,076	2,108,149
	Financial Markets	3,208,594	607,035	102,643	13,003	0	70,106	4,001,381
	Corporate Center	123,504	663,845	1,062,795	98,934	126,013	233,709	2,308,800
Total exposure		**4,091,106**	**4,163,928**	**6,472,376**	**250,222**	**326,259**	**337,738**	**15,641,629**

in TEUR 31.12.2017		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Obligo	Corporate Customers	758,263	1,744,427	3,067,290	93,646	107,833	21,730	5,793,189
	Private Customers	10	764,292	889,496	21,372	23,706	27,500	1,726,376
	Financial Markets	2,857,399	510,284	52,909	9,539	0	47,149	3,477,280
	Corporate Center	107,352	1,083,157	2,515,516	202,430	161,818	259,466	4,329,739
Total exposure		**3,723,024**	**4,102,160**	**6,525,211**	**326,987**	**293,357**	**355,845**	**15,326,584**

Regions broken down by rating (maximum default risk)

in TEUR 31.12.2016	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	2,060,665	2,654,541	4,413,315	122,594	164,554	321,961	9,737,630
Italy	4,000	265,695	519,605	91,874	122,469	6,249	1,009,892
Germany	266,626	547,590	849,946	10,848	33,855	4,195	1,713,060
Switzerland and Liechtenstein	232,523	288,137	544,617	11,474	4,955	4,123	1,085,829
Other foreign countries	1,527,292	407,965	144,893	13,432	426	1,210	2,095,218
Total exposure	**4,091,106**	**4,163,928**	**6,472,376**	**250,222**	**326,259**	**337,738**	**15,641,629**

in TEUR 31.12.2017	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	1,854,474	2,840,399	4,418,289	174,882	152,242	315,889	9,756,175
Italy	3,887	205,481	519,540	118,321	122,143	7,140	976,512
Germany	206,880	425,014	967,598	9,844	14,998	7,742	1,632,076
Switzerland and Liechtenstein	194,737	287,473	479,024	14,389	3,820	4,424	983,867
Other foreign countries	1,463,046	343,793	140,760	9,551	154	20,650	1,977,954
Total exposure	**3,723,024**	**4,102,160**	**6,525,211**	**326,987**	**293,357**	**355,845**	**15,326,584**

The Group reports a concentration risk in Italy. In recent years, the property market in Italy has been characterised by falling prices.
The Group conducts leasing business only in Northern Italy, where the situation, in relative terms, is better than in the rest of the country.

Industries (maximum default risk)

in TEUR	31.12.2017	31.12.2016
Financial intermediaries	2,997,044	3,302,325
Consumers/private customers	2,230,955	2,293,576
Public sector	2,117,158	2,175,965
Real estate	2,390,451	2,068,399
Services	1,730,336	1,904,401
Trading	890,775	902,279
Metals/machinery	365,205	371,286
Construction	485,728	405,019
Transport/communications	299,969	369,544
Tourism	511,734	530,151
Water and energy utilities	179,114	244,956
Other goods	156,002	156,171
Vehicle construction	116,364	147,412
Petroleum, plastics	88,793	91,306
Other industries	766,956	678,839
Total	**15,326,584**	**15,641,629**

Exposure in rating class 5

in TEUR	31.12.2017	31.12.2016
Corporate Customers - Exposure	107,833	167,593
Corporate Customers - Value adjustments	30,349	51,428
Private Customers - Exposure	23,706	32,653
Private Customers - Value adjustments	7,039	10,071
Financial Markets - Exposure	0	0
Financial Markets - Value adjustments	0	0
Corporate Center - Exposure	161,818	126,013
Corporate Center - Value adjustments	35,881	23,714
Total - Exposure	**293,357**	**326,259**
Total - Value adjustments	**73,269**	**85,213**

Non-performing loans

The Group designates loans in the regulatory asset class of loans in arrears as non-performing loans. These amounted to TEUR 281,983 as at 31 December 2017 (2016: TEUR 311,699), accounting for 1.84 % (2016: 1.99 %) of the maximum default risk.

Collateral

A uniform and comprehensible collateral measurement policy governs the measurement and acceptance of collateral. During the terms of loans, the collateral is monitored on a regular basis to ensure that it retains value. Collateral is usually measured by the Back Office, or above a certain size by a body independent of the lending process.

The most important type of collateral is real estate. Valuations are reviewed regularly. The fulfilment of operating conditions for the eligibility of such collateral for capital backing is guaranteed. Loans above TEUR 3,000 are remeasured by independent specialists after three years at the most. The Hypo Immobilien & Leasing Group operates as a service provider in this business to ensure uniform, independent valuation.

Personal guarantees can only be taken into account when the guarantor or liable party has an excellent credit rating. These are usually public bodies or banks. Discounts are applied to the current market value of financial collateral to account for unexpected fluctuations. In addition, such collateral must be sufficiently liquid to guarantee that it can be realised.

Other collateral is only accepted if it is recoverable and legally enforceable in every respect. The Hypo Immobilien & Leasing Group handles the liquidation of defaulted loans and advances backed by mortgages. In the reporting period, the Hypo Immobilien & Leasing Group acquired one property (2016: two properties) for TEUR 6,331 (2016: TEUR 1,331); one property was sold for TEUR 5,400.

Depending on the market situation, it may not be easy to convert the acquired properties into cash. Following acquisition, the Hypo Immobilien & Leasing Group analyses whether a sale or a long-term let would be more advantageous. In the event of a sales strategy, an attempt will be made to implement the sale as quickly as possible, taking the proceeds into account. In the event of a letting strategy, the property will be permanently classified as investment property in the Group.

As a result of restructuring measures, no exposure was rated as healthy in 2017 (2016: TEUR 5,529). Loan loss provisions of TEUR 2,320 were reversed in the previous year 2016.

Past due but non-impaired receivables

Length of time overdue	31.12.2017 Exposure-TEUR	31.12.2016 Exposure-TEUR
Less than 1 day	14,879,381	15,142,501
1 to 60 days	149,678	166,693
61 to 90 days	4,135	6,168
More than 90 days	33	8
Total	**15,033,227**	**15,315,370**

Loans and advances with forbearance measures

in TEUR	31.12.2017	31.12.2016
Non-financial companies	620	18,834
Private households	0	1,089
Loans and advances with forbearance measures on performing loans	**620**	**19,923**
Financial intermediaries	190	0
Non-financial companies	53,990	38,205
Private households	0	4,858
Loans and advances with forbearance measures on nonperforming loans	**54,180**	**43,063**
Total loans and advances with forbearance measures	**54,800**	**62,986**

In December 2017, Hypo Vorarlberg concluded a synthetic securitisation in the form of a financial guarantee from the European Investment Fund (EIF). The main objective of this synthetic securitisation is to hedge credit risks. The EIF guarantee hedges the senior and mezzanine tranche of a reference portfolio of loans to small and medium-sized enterprises (SMEs) and mid caps in Austria and Germany. The hedged reference portfolio has a volume of approx. TEUR 330,000.

in TEUR	31.12.2017	Closing Date
Senior tranche	258	258
Mezzanine tranche	68	68
First loss tranche	5	5
Total	**331**	**331**

The reference portfolio was not sold and remains on Hypo Vorarlberg's books. The significant risk transfer under Art. 244 CRR leads to a reduction in risk-weighted assets and thus the own funds requirement. At the end of the year Hypo Vorarlberg exercises its option and deducts securitisation items with a risk weighting of 1.25% from the capital and no longer recognises them under risk-weighted assets.

(65) LIQUIDITY RISK

Liquidity risk management is conducted to ensure the Bank's ability to pay its obligations at all times (operating liquidity) and simultaneously minimise costs associated with holding cash. The Group monitors its liquidity buffer on an ongoing basis. This includes instruments and markets available for refinancing and assets that are convertible into cash (tactical liquidity management). As part of strategic liquidity management, the Group manages the maturities of its assets and liabilities and defines a corresponding issuance strategy. Monitoring involves gap analyses and forecasting the issue volume required for the calendar year. The Group tries to identify potential risks by carrying out regular stress tests. Contingency plans are in place to ensure the Bank's continued solvency in the event of a liquidity crisis.

The Bank employs the following control instruments to identify and contain liquidity risks:

Operational
- Limiting weekly liquidity gaps on the money market
- Ratios of amounts payable and receivable within three months

Strategic
- Limiting cumulative annual liquidity gaps on the capital market
- Forecasting the issue volume required for the calendar year
- Liquidity value at risk

Stress tests
- Liquidity needs versus buffer in crisis situation

The Group is aware of the key significance of the capital market for funding. Relationships with investors are established and maintained through regular road shows. The Group aims for a diverse issuance policy with regard to markets, instruments and investors.

The Bank's liquidity buffer is large enough at all times to accommodate the utilisation of credit commitments (call risk) and ensure that expected payments not received (time risk) do not compromise solvency. In addition, the Group currently hardly utilises the OeNB's or ECB's marginal lending facility, the SNB repo system and the money market. The Group participated in the ECB's long-term tenders. Therefore, there is sufficient available liquidity at all times to prevent bottlenecks in the event of a crisis.

Hypo Vorarlberg complied in full with the liquidity regulations outlined in the Austrian Banking Act (BWG) and the CRR. There are no other cash flow risks for the Group besides the risks described here.

The information in the tables on development of maturities on the money and capital markets relate to financial instruments. The expected cash flows are as follows: The disclosures in the derivatives column relate to Notes (18 to 19) and (34 to 35). The disclosures in the assets column relate to Notes (15 to 17) and (20 to 22). The disclosures in the equity and liabilities column relate to Notes (31 to 33) and (36 to 41). The money market table shows all maturities within the next 12 months. The capital market table shows all maturities after the next 12 months.

Maturity profile money market

in TEUR	Assets		Liabilities		
31.12.2016	Assets	Derivates	Liabilities	Derivates	Total
January 2017	1,367,219	345,829	-866,001	-346,634	500,413
February 2017	191,456	77,301	-217,821	-76,128	-25,192
March 2017	317,733	104,714	-536,355	-92,574	-206,482
April 2017	107,233	31,925	-167,901	-21,487	-50,230
May 2017	100,662	19,734	-132,933	-11,140	-23,677
June 2017	243,802	35,763	-185,980	-41,026	52,559
July 2017	125,342	94,827	-279,055	-75,295	-134,181
August 2017	120,627	21,223	-405,711	-8,251	-272,112
September 2017	222,840	145,978	-1,185,986	-111,738	-928,906
October 2017	136,983	12,091	-155,183	-10,504	-16,613
November 2017	58,772	12,283	-127,102	-8,989	-65,036
December 2017	81,975	14,874	-117,829	-14,261	-35,241

in TEUR	Assets		Liabilities		
31.12.2017	Assets	Derivates	Liabilities	Derivates	Total
January 2018	943,730	184,222	-739,481	-183,546	204,925
February 2018	113,182	15,209	-245,895	-13,875	-131,379
March 2018	248,976	98,765	-181,086	-100,034	66,621
April 2018	101,785	20,819	-164,827	-14,814	-57,037
May 2018	107,101	79,709	-242,658	-66,083	-121,931
June 2018	313,554	49,084	-205,589	-49,776	107,273
July 2018	82,804	7,955	-247,372	-5,680	-162,293
August 2018	70,009	12,948	-273,322	-8,338	-198,703
September 2018	127,616	8,442	-175,892	-7,278	-47,112
October 2018	83,417	13,076	-139,617	-10,381	-53,505
November 2018	78,672	12,533	-218,638	-9,011	-136,444
December 2018	78,310	11,721	-134,358	-11,183	-55,510

Development of maturities on the capital market

in TEUR	Assets		Liabilities		
31.12.2016	**Assets**	**Derivates**	**Liabilities**	**Derivates**	**Total**
2017	3,194,611	916,540	-4,430,997	-818,230	-1,138,076
2018	1,192,360	167,344	-2,006,128	-142,727	-789,151
2019	1,118,147	293,457	-1,503,002	-301,895	-393,293
2020	1,090,407	314,343	-1,295,221	-328,410	-218,881
2021	1,028,920	82,749	-552,494	-81,529	477,646
2022	905,332	63,533	-410,782	-60,433	497,650
2023	772,260	56,778	-115,268	-56,940	656,830
2024	753,381	181,323	-144,412	-191,017	599,275
2025	698,114	347,250	-689,744	-347,482	8,138
2026	606,048	36,777	-129,933	-35,770	477,122
2027	354,219	33,289	-89,497	-30,868	267,143
2028	365,205	51,666	-42,773	-50,339	323,759

in TEUR	Assets		Liabilities		
31.12.2017	**Assets**	**Derivates**	**Liabilities**	**Derivates**	**Total**
2018	2,553,866	518,214	-3,000,558	-484,398	-412,876
2019	1,295,948	355,160	-2,433,132	-354,205	-1,136,229
2020	1,271,033	338,648	-1,338,072	-342,378	-70,769
2021	2,134,089	103,259	-2,363,438	-105,463	-231,553
2022	1,076,490	79,078	-782,073	-82,493	291,002
2023	882,588	65,311	-284,599	-69,888	593,412
2024	875,450	182,703	-693,208	-190,671	174,274
2025	747,840	338,193	-695,672	-326,581	63,780
2026	680,978	40,835	-132,906	-40,139	548,768
2027	556,720	37,645	-221,471	-35,710	337,184
2028	389,892	51,490	-61,388	-49,163	330,831
2029	303,992	29,481	-92,541	-27,149	213,783

(66) OPERATING RISK

Operating risks are minimised in the Bank in all divisions through the clear distribution of responsibilities and written procedural instructions. The Bank has written emergency plans in place, and a crisis management manual is made available to all employees. Employees receive regular training to prepare them for crisis events of all kinds. The Bank has critically studied all internal processes multiple times as part of functional analyses.

Loss events at the Bank are recorded in a loss event database. In this database, operating loss events are assigned to different categories. Quality assurance is performed by Operational Risk Managers who review each loss event. For example, the recording of loss events is guaranteed because it is a requirement a necessary entry. The database is analysed for the quarterly OR report.

The Bank places great emphasis on data protection and security measures and conducts a large number of controls and monitoring processes to ensure that entrusted data remains confidential. Internal Audit conducts both regular and unannounced audits to ensure adherence to procedural instructions.

Material transactions and decisions are made exclusively in accordance with the dual-control principle. Well-trained and conscientious employees are of great importance to the Bank. The internal Legal Department designs contracts carefully in consultation with specialist lawyers and university professors to minimise legal risks.

(67) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

Capital management

The Group's capital management objectives and requirements include:

- Compliance with the regulatory capital requirements of CRR
- Maintaining a going concern
- Managing shareholder distributions
- Development of the capital base

Capital adequacy is continuously monitored in accordance with CRR. These data are calculated every month and reported individually and at the level of Vorarlberger Landesbank-Holding to Oesterreichische Nationalbank on a quarterly basis. In 2016, CRR requires institutions to comply with a Common Equity Tier 1 capital ratio of 4.50 %, a Tier 1 capital ratio of 6.00 % and a total capital ratio of 8.00 %. In 2017, an additional capital conservation buffer of 1.25 % (2016: 0.625 %) was created that will increase continuously until 2019 to reach the target ratio of 2.5 % as an additional capital conservation buffer on the Common Equity Tier 1 capital. The Bank met the regulatory capital requirements both in the year under review (in accordance with CRR) and the previous year (in accordance with BWG).

The amount of regulatory capital held by the Bank Group is determined by Central Accounting and consists of three tiers.

Common Equity Tier 1 capital – CET1

This includes the eligible and paid-in capital instruments, share premium accounts related to these instruments, retained earnings, eligible profit/loss for the year, accumulated other comprehensive income, and other reserves. CRR provides appropriate transitional regulations for the period from 2014 to 2021. In addition, CRR provides for deductions, such as intangible assets, deferred tax assets, measurement effects due to the institution's own credit risk, and Common Equity Tier 1 instruments of financial sector entities that exceed certain thresholds.

Additional Tier 1 capital – AT1

This includes the eligible and paid-in capital instruments and share premium accounts related to these instruments. CRR also provides appropriate transitional regulations for the period from 2014 to 2021 for these instruments. In addition, deductions are also included in CRR for these items.

Tier 1 capital is the total of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 2 capital – T2

This includes the eligible Tier 2 bonds and subordinated loans and share premium accounts related to these instruments. There are transitional regulations for the period from 2014 to 2021 for subordinated and Tier 2 capital already issued that does not meet the requires of Article 63 CRR. Tier 2 instruments in the last five years of their terms are only eligible to a certain extent. Tier 2 instruments of financial sector entities that exceed certain thresholds are also deductible here.

The sum of Tier 1 and Tier 2 capital gives the attributable own funds. The tables below show the capital requirements pursuant to CRR and the breakdown of the Bank Group's capital.

Pillar 2 of Basel III requires banks additionally to demonstrate their capital adequacy on the basis of internal models. This is to ensure in particular that risks are considered which receive no capital requirements under Pillar 1. Such risks include interest rate risk in the banking book. The Bank employs the Internal Capital Adequacy Assessment Process (ICAAP) to identify, quantify, aggregate and monitor all major risks. The Bank calculates economic capital requirements for each of these risks.

The Bank allocates a capital buffer if economic capital requirements cannot be calculated. The available risk coverage potential is distributed across organisational units and risk types in annual planning. By using the Capital Adequacy Process, the Bank ensures that risk limits are complied with and that risks taken are covered by existing coverage potential. The Bank applies a confidence level of 99.9 % for the Capital Adequacy Process on a liquidation basis and a confidence level of 95 % on a going concern basis. The holding period is one year in each case. Correlations between individual risk types are not taken into consideration. The Capital Adequacy Process calculation is performed monthly.

The Bank's credit risk calculation of economic capital is based on the Basel III IRB approach. With this approach, the consumption of economic capital depends on the volume, collateral and rating of the debtor. Value at risk is employed in the ICAAP for the management of market risk. The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis. In addition, limits are defined for various yield curves, currency pairs or equity position risks.

The Bank calculates economic capital for operational risk using the Pillar 1 basic indicator approach. To quantify structural liquidity risk, Hypo Vorarlberg calculates liquidity VaR based on the ICAAP guidelines of the Austria Financial Market Authority/ Austrian National Bank. In-house methods are used for shareholder risk, real estate risk, foreign currency risk in the lending business, migration risk and counterparty default risk. A capital buffer is recognised for other risks.

Regulatory requirements

Total risk exposure according to CRR

in TEUR	31.12.2017	31.12.2016
Risk weighted exposure amounts	6,902,740	7,055,220
Total risk exposure amount for position, foreign exchange and commodities risks	353	492
Total risk exposure amount for operational risk	442,563	450,246
Total risk exposure amount for credit valuation adjustment	31,660	38,215
Total risk exposure amount	**7,377,316**	**7,544,173**

Common Equity Tier 1 capital (CET1) according to CRR

in TEUR	31.12.2017	31.12.2016
Capital instruments eligible as CET1 capital	184,327	184,327
Retained earnings	754,302	671,984
Accumulated other comprehensive income	9,219	8,549
Other reserves	128,472	128,472
Transitional adjustments due to grandfathered CET1 Capital instruments	15,000	18,000
Minority interest given recognition in CET1 capital	30	17
Transitional adjustments due to additional minority interests	2	12
Adjustments to CET1 due to prudential filters	2,948	2,769
Intangible assets	-2,510	-1,960
Other transitional adjustments to CET1 Capital	-8,019	-15,674
Common Equity Tier 1 capital (CET1)	**1,083,771**	**996,496**

Additional Tier 1 capital (AT1) according to CRR

in TEUR	31.12.2017	31.12.2016
Capital instruments eligible as AT1 capital	10,000	10,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	7	4
Transitional adjustments due to additional recognition in AT1 capital of instruments issued by subsidiaries	-1	-2
Other transitional adjustments to AT1 capital	-502	-783
Additional Tier 1 capital (AT1)	**9,504**	**9,219**

Tier 2 capital (T2)

in TEUR	31.12.2017	31.12.2016
Capital instruments and subordinated loans eligible as T2 capital	235,076	240,810
Instruments issued by subsidiaries that are given recognition in T2 capital	9	6
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	-2	-2
Tier 2 capital (T2)	**235,083**	**240,814**

Composition of own funds according to CRR and capital ratios

in TEUR	31.12.2017	31.12.2016
Common Equity Tier 1 capital (CET1)	1,083,771	996,496
Additional Tier 1 capital (AT1)	9,504	9,219
Tier 1 capital	**1,093,275**	**1,005,715**
Tier 2 capital (T2)	235,083	240,814
Own funds	**1,328,358**	**1,246,529**
CET1 Capital ratio (CET1)	14.69 %	13.21 %
Surplus of CET1 capital	751,792	657,009
T1 Capital ratio (T1)	14.82 %	13.33 %
Surplus of T1 capital	650,635	553,065
Total capital ratio	18.01 %	16.52 %
Surplus of total capital	738,172	642,995

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(68) AUSTRIAN LAW

In line with Section 59a Austrian Banking Act in conjunction with Section 245a (1) Austrian Corporate Code (UGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards applicable in the EU. In line with Section 59a Austrian Banking Act, the disclosures per Section 64 (1) No. 1–19 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the Notes to the consolidated financial statements.

(69) ADDITIONAL DISCLOSURES IN LINE WITH THE AUSTRIAN BANKING ACT

The disclosure pursuant to Section 64 (1) No. 1 BWG on participation in the leasing business can be read in Note (17).

The disclosure pursuant to Section 64 (1) No. 2 BWG on total assets and liabilities in foreign currencies can be read in Note (43).

The disclosure pursuant to Section 64 (1) No. 3 BWG on forward transactions not yet settled on the reporting date can be read in Notes (19 and 35).

The disclosure pursuant to Section 64 (1) No. 4 BWG on residual terms of loans and advances to banks and customers of liabilities to banks and customers can be read in Note (44).

The balance sheet items "Financial liabilities – designated at fair value" and "Subordinated capital (LAC)" include subordinated liabilities. The following table provides details in accordance with Section 64 (1) No. 5 to 6 BWG.

in TEUR	Total number		Carrying value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAFV	7	10	41,616	57,636
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	19	22	264,516	379,044

in TEUR	Average interest		Average remaining term	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAFV	1.666	2.450	8.1	6.2
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	2.471	1.917	8.3	3.4

The following subordinated liabilities exceed 10% of the total amount of the above subordinated liabilities. The conditions of these issues in accordance with Section 64 No. 5 BWG are also given.

- Subordinated bond ISIN AT0000A0CWZ7, TEUR 38,886, variable interest rate 6M Euribor + 0.75%, term 2009 to 2018, no call or conversion option, repaid at end of term at nominal value.
- Subordinated bond ISIN AT0000A0XB21, TEUR 100,000, fixed interest rate 5%, term 2012 to 2022, no call or conversion option, repaid at end of term at nominal value.
- Subordinated bond ISIN AT0000A1GTF4, TEUR 50,000, fixed interest rate 4.5%, term 2015 to 2025, no call or conversion option, repaid at end of term at nominal value.
- Subordinated bond ISIN AT0000A1YQ55, TEUR 50,000, fixed interest rate 3.125%, term 2017 to 2027, no call or conversion option, repaid at end of term at rate of 100.

In 2018, bonds and other fixed-income securities in accordance with Section 64 (1) No. 7 BWG totalling TEUR 228,018 (2017: TEUR 642,365) and issued bonds totalling TEUR 309,659 (2017: TEUR 1,438,806) will fall due for repayment.

The disclosure pursuant to Section 64 (1) No. 8 BWG on assets provided as collateral can be read in Note (48).

The disclosure pursuant to Section 64 (1) No. 9 BWG is not made in terms of geographical markets, as these do not differ materially from the location of the Bank's organisation.

The disclosure pursuant to Section 64 (1) No. 12 BWG is already made in the individual Notes of the consolidated financial statements where the amounts are significant.

The interest expense for subordinated liabilities according to Section 64 (1) No. 13 BWG was TEUR 9,936 in 2017 (2016: TEUR 9,711).

The disclosure pursuant to Section 64 (1) No. 15 BWG can be read in Note (71). The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service. As of 31 December 2017, the trading portfolio includes investment funds of TEUR 50 (2016: TEUR 661).

The disclosure pursuant to Section 64 (1) No. 16 and No. 17 BWG on the breakdown of Tier 1 capital, supplementary capital and consolidated capital can be read in Notes (42 and 67).

The financial information and keyfigures for each country of establishment pursuant to Section 64 (1) No. 18 BWG are disclosed in extract form in the following table.

in TEUR 2016	Austria	Switzerland	Italy	Hungary	Czech Republic
Net interest income	147,771	6,270	13,543	254	0
Net fee and commission income	33,694	541	-124	-84	0
Net result on hedge accounting	1,674	0	0	0	0
Net trading result	27,551	441	9	-3	0
Net result from other financial instruments	10,813	0	0	0	0
Administrative expenses	-86,502	-5,342	-5,228	-12	-30
Earnings before taxes	114,614	2,409	490	136	-30
Taxes on income	-27,833	-422	-239	-699	2
Number of full-time equivalent employees	663.50	19.70	42.00	0.00	0.00

in TEUR 2017	Austria	Switzerland	Italy	Hungary	Czech Republic
Net interest income	139,268	6,739	13,253	0	0
Net fee and commission income	34,308	653	-128	0	0
Net result on hedge accounting	-458	0	0	0	0
Net trading result	9,023	436	14	0	0
Net result from other financial instruments	5,130	0	0	0	0
Administrative expenses	-89,770	-4,681	-5,485	0	-16
Earnings before taxes	91,865	3,424	457	0	6
Taxes on income	-27,346	-592	-337	0	-1
Number of full-time equivalent employees	677.70	19.80	38.90	0.00	0.00

Switzerland comprises our branch in St. Gallen. The branch in St. Gallen acts as a universal bank. It focuses on lending, asset management and investment advisory services. It operates in German-speaking Switzerland, especially Eastern Switzerland.

Italy comprises our companies Hypo Vorarlberg Holding (Italy) – G.m.b.H, Hypo Vorarlberg Leasing AG and Hypo Vorarlberg Immo Italia srl. All companies are based in Bolzano. Hypo Vorarlberg Leasing AG conducts property leasing business and occasionally movables leasing business. Hypo Vorarlberg Leasing AG has branches in Como and Treviso. It operates in South Tyrol and Northern Italy. Hypo Vorarlberg Immo Italia srl manages and evaluates the Group's properties in Italy and provides property services for Hypo Vorarlberg Leasing AG and the Group. In addition, Hypo Vorarlberg Immo Italia srl manages and commercialises its own properties. Hypo Vorarlberg Holding (Italy) G.m.b.H. holds the stakes in the two other companies.

Hungary comprises our companies Inprox GY – HIL Kft. and HSL Logisztika Hungary Kft., both based in Budapest. Both companies operate in the property leasing business and each company finances a large commercial property in Hungary. Both companies thus no longer form part of the scope of consolidation in 2016. Further details on the disposal are given in Note (2).

The Czech Republic comprises our companies Inprox Praha Michle – HIL s.r.o. and Inprox Praha Letnany – HIL s.r.o., both based in Prague. Both companies operate in the property leasing business and each company finances a large commercial property in the Czech Republic.

The return on total assets in accordance with Section 64 (1) No. 19 BWG is 0.51% (previous year: 0.65%).

Hypo Vorarlberg has issued a participation certificate, but did not call back or take shares in pledge in 2017 or 2016.

(70) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE ACT

The table below provides a breakdown of fees paid to Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Strasse 19 – IZD-Tower, 1220 Vienna per Section 266 UGB.

in TEUR	2017	2016
Expenses for auditing the consolidated financial statements	184	186
Expenses for other auditing services	39	17
Expenses for other services	28	34
Total fees	**251**	**237**

(71) DISCLOSURES ON STOCK-EXCHANGE LISTING

A breakdown of securities per Section 64 (1) No. 10 and No. 11 BWG is provided below.

in TEUR	Not listed 31.12.2017	Listed 31.12.2017	Not listed 31.12.2016	Listed 31.12.2016	Total 31.12.2017	Total 31.12.2016
Bonds – AFV	80,094	207,685	94,751	238,616	287,779	333,367
Bonds – AFS	18,301	621,199	14,327	706,463	639,500	720,790
Bonds – HTM	3,977	1,084,372	4,742	1,073,138	1,088,349	1,077,880
Shares – HFT	27	23	650	11	50	661
Shares – AFV	59,244	6	2,770	5,410	59,250	8,180
Shares – AFS	17,682	10,000	17,358	8,500	27,682	25,858
Shares – HTM	0	0	0	10,000	0	10,000
Investments	11,207	0	11,208	0	11,207	11,208
Shares in affiliated companies	29	0	28	0	29	28
Total securities	**190,561**	**1,923,285**	**145,834**	**2,042,138**	**2,113,846**	**2,187,972**
of which non-current assets	164,110	1,923,262	128,743	2,042,127	2,087,372	2,170,870
of which current assets	26,424	0	16,441	0	26,424	16,441
of which trading assets	27	23	650	11	50	661

In the interest of improved transparency and informational value of the breakdown of securities, loans and advances to banks and customers were excluded from bonds at fair value.

The difference between cost and the lower repayment amount per Section 56 (2) Austrian Banking Act was TEUR 51,261 (2016: TEUR 54,389). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was TEUR 17,699 (2016: TEUR 11,731). At 31 December 2017, subordinated capital in the portfolio securities totalled TEUR 1,038 (2016: TEUR 911).

(72) SUBSIDIARIES AND HOLDINGS NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The following subsidiaries were not included in the consolidated financial statements as they are of minor importance to the informational value of the consolidated financial statements, both when considered individually and when taken together. In most cases, these companies are project companies which do not undertake business operations and are instead responsible for the realisation of individual assets. Hotel Jagdhof Kessler Betriebs GmbH & Co KG based in Riezlern under takes business operations in the form of a hotel business.

Company name, place in TEUR	Percentage of capital	Shareholders' equity	Net result	Total assets	Date of financial statements
HV-Finanzdienstleistungs- und Immobilien GmbH, D-Kempten	100.00	0	0	0	31.12.2017
Hotel Widderstein Besitz & Verwaltungs GmbH, Schröcken	100.00	101	11	101	31.12.2017
"ATZ" Besitz- und VerwaltungsGmbH, Bregenz	100.00	-83	-5	960	31.12.2017
Hotel Jagdhof Kessler Betriebs GmbH & Co KG, Riezlern	100.00	309	46	3,103	31.10.2017
Hotel Jagdhof Kessler BetriebsGmbH, Riezlern	100.00	20	0	23	31.10.2017
Total		**347**	**52**	**4,187**	

The following holdings over which the Group can exert significant influence are not included in the consolidated financial statements, primarily because inclusion would lead to a disproportionately long delay to the consolidated financial statements and also because reconciliation would involve disproportionately high costs, due to IFRS, without significantly increasing the informational value with regard to the Group's net assets and liabilities, financial condition, and results of operations.

Company name, place in TEUR	Percentage of capital	Shareholders' equity	Net result	Total assets	Date of financial statements
„Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	33.33	37	0	255	*31.12.2017
CAMPUS Dornbirn II Investment GmbH, Dornbirn	30.00	4,078	245	20,032	31.12.2016

*Provisional result

Company name, place in TEUR	The Group's share in equity	The Group's share in
„Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	12	0
CAMPUS Dornbirn II Investment GmbH, Dornbirn	1,223	74
Total	**1,236**	**74**

VI. MANAGING BOARD
SUPERVISORY BOARD

MANAGING BOARD

Michel Haller
Chairman of the Managing Board, Tettnang

Johannes Hefel
Member of the Managing Board, Schwarzach

Wilfried Amann
Member of the Managing Board, Bludesch

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn

Astrid Bischof
Entrepreneur, Göfis

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Dornbirn (since 07.03.2017)

Michael Horn
Deputy Chairman of the Managing Board of Landesbank
Baden-Württemberg (LBBW), Weingarten

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis
Member of the Managing Board of Landeskreditbank
Baden-Württemberg – Förderbank (L-Bank), Ettlingen

Veronika Moosbrugger, CIA, CFSA, CRMA
Chairwoman of the Works Council
Works Council delegate

Andreas Hinterauer
Works Council delegate (from 01.03.2017)

Elmar Köck
Works Council delegate

Gerhard Köhle
Works Council delegate

Peter Niksic
Works Council delegate

Bernhard Köb
Works Council delegate (until 28.02.2017)

VII. SUBSIDIARIES
AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statements
The shareholdings listed in the following table did not change in financial year 2017. The share of voting rights corresponds to the equity interest. In the 2017 financial year, the following companies were fully consolidated in the consolidated financial statements for the first time: VKL IV Leasinggesellschaft m.b.H., VKL V Immobilien Leasinggesellschaft m.b.H., HYPO EQUITY Unternehmensbeteiligungen AG, ECOS Venture Capital Beteiligungs AG, HYPO EQUITY Beteiligungs AG, KUFA GmbH, METIS - Beteiligungs und Verwaltungs GmbH, PAXO - Beteiligungs und Verwaltungs GmbH, SOCE - AC Holding GmbH and Innovacell Biotechnologie AG.

Company name, place	Percentage of capital	Date of financial statements
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00 %	31.12.2017
LD-Leasing GmbH, Dornbirn	100.00 %	31.12.2017
Hypo Vorarlberg Leasing AG, IT-Bolzano	100.00 %	31.12.2017
Hypo Vorarlberg Holding (Italien) - G.m.b.H, IT-Bolzano	100.00 %	31.12.2017
Hypo Vorarlberg Immo Italia srl, IT-Bolzano	100.00 %	31.12.2017
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
Hypo Immobilien Besitz GmbH, Dornbirn	100.00 %	31.12.2017
"Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00 %	31.12.2017
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00 %	31.12.2017
Hypo Versicherungsmakler GmbH, Dornbirn	100.00 %	31.12.2017
Hypo Immobilien Investment GmbH, Dornbirn	100.00 %	31.12.2017
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00 %	31.12.2017
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100.00 %	31.12.2017
HIL Immobilien GmbH, Dornbirn	100.00 %	31.12.2017
HIL BETA Mobilienverwaltung GmbH, Dornbirn	100.00 %	31.12.2017
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00 %	31.12.2017
HIL Baumarkt Triester Straße Immobilienleasing GmbH, Dornbirn	100.00 %	31.12.2017
HIL Real Estate alpha GmbH, Dornbirn	100.00 %	31.12.2017
HIL Real Estate International Holding GmbH, Dornbirn	100.00 %	31.12.2017
"Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100.00 %	31.12.2017
Inprox Praha Michle - HIL s.r.o., CZ-Prague	100.00 %	31.12.2017
Inprox Praha Letnany - HIL s.r.o., CZ-Prague	100.00 %	31.12.2017
"HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
"POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00 %	31.12.2017
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00 %	31.12.2017
D. TSCHERNE Gesellschaft m.b.H., Vienna	100.00 %	31.12.2017
VKL IV Leasinggesellschaft mbH, Dornbirn	100.00 %	31.12.2017
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31.12.2017
AURORA - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30.09.2017
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz	79.19 %	30.09.2017
ECOS Venture Capital Beteiligungs AG, Vienna*)	79.19 %	30.09.2017
HYPO EQUITY Beteiligungs AG, Bregenz*)	79.19 %	30.09.2017
KUFA GmbH, Bregenz*)	79.19 %	30.09.2017
METIS - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30.09.2017
PAXO - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30.09.2017
SOCE - AC Holding GmbH, Vienna*)	79.19 %	30.09.2017
"HSL-Lindner" Traktorenleasing GmbH, Dornbirn	76.00 %	31.12.2017
Innovacell Biotechnologie AG, Innsbruck*)	43.80 %	30.09.2017

*) These companies have been included in the HYPO EQUITY Unternehmensbeteiligungen AG subgroup (HUBAG) since 14 August 2017. The separate financial statements of all these companies – with the exception of Innovacell Biotechnologie AG – have 30 September 2017 as their basis as these companies' financial years differ from the calendar year. However, significant deviations were nevertheless taken into account. Due to HYPO EQUITY Beteiligungs AG's 55.31 % interest in Innovacell Biotechnologie AG in conjunction with the corresponding share of voting rights, the Group envisages a controlling interest over Innovacell Biotechnologie AG.

b) Companies consolidated in the consolidated financial statements according to the equity method:
The shareholdings listed in the following table did not change in the financial year 2017.
The share of voting rights corresponds to the equity interest in each case.

Company name, place in TEUR	Percentage of capital	Sharehold-ers' equity	Total assets	Liabilities	Revenues
Silvretta-Center Leasing GmbH, Bregenz	50.00	1,702	8,207	6,505	401
MASTERINVEST Kapitalanlage GmbH, Vienna	37.50	4,559	8,262	3,703	33
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33	219	3,177	2,958	0
VKL II Grundverwertungsgesellschaft m.b.H., Dornbirn	33.33	40	41	1	0
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33.33	4,644	4,645	1	5

VKL I (Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H.) – III and Silvretta-Center Leasing GmbH are property companies whose tasks involve either the letting, sale or administration of properties. The business activity of MASTERINVEST Kapitalanlage GmbH involves the management of investment funds in accordance with the Austrian Investment Fund Act.

All companies included in the consolidated financial statements according to the equity method are based on separate financial statements as at 31 December 2017.

The revenues shown in the table for Silvretta-Center Leasing GmbH represent rental income, as the purpose of the companies is letting and leasing. For the other companies, net interest income is shown under revenues.

(73) DISCLOSURE ON NON-CONTROLLING INTERESTS

There are non-controlling interests in "HSL-Lindner" Traktorenleasing GmbH, based in Dornbirn, and HYPO EQUITY Unternehmensbeteiligungen AG, based in Bregenz. These companies' financial information is presented in the tables below.

"HSL-Lindner" Traktorenleasing GmbH, Dornbirn

in TEUR	31.12.2017	31.12.2016
Assets	2,154	2,066
Financial assets	2,094	2,027
of which current	1,159	1,188
of which non-current	935	839
Other assets	60	39
Liabilities	1,963	1,908
Financial liabilities	1,830	1,848
of which non-current	1,830	1,848
Other liabilities	133	60
Shareholders' equity	191	158
of which non-controlling interests	46	38

in TEUR	2017	2016
Net interest income	50	62
Other income	1,023	925
Other expenses	-1,020	-923
Earnings before taxes	45	13
Taxes on income	-12	-3
Income after taxes	33	10
of which non-controlling interests	8	2
Dividends/distributions	0	50
of which non-controlling interests	0	12

HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz

in TEUR	31.12.2017	31.12.2016
Assets	90,215	0
Other assets	90,215	0
Liabilities	60,409	0
Financial liabilities	49,430	0
of which current	2,663	0
of which non-current	46,767	0
Provisions	250	0
Other liabilities	10,729	0
Shareholders' equity	29,806	0
of which non-controlling interests	10,516	0

in TEUR	2017	2016
Net interest income	-425	0
Other income	3,159	0
Other expenses	-265	0
Earnings before taxes	-122	0
Taxes on income	-1	0
Income after taxes	-123	0
Dividends/distributions	0	0

(74) DISCLOSURES ON MATERIAL JOINT VENTURES AND ASSOCIATES

Financial information on material joint ventures and associates is presented in the tables below.

MASTERINVEST Kapitalanlage GmbH, Vienna

in TEUR	31.12.2017	31.12.2016
Assets	8,262	7,668
Financial assets	5,194	5,194
of which current	2,437	2,643
of which non-current	2,757	2,551
Other assets	3,068	2,474
Liabilities	3,703	3,075
Provisions	142	133
Other liabilities	3,561	2,942
Shareholders' equity	4,559	4,593

in TEUR	2017	2016
Net interest income	33	39
Other income	465	628
Other expenses	-350	-327
Earnings before taxes	802	1,012
Taxes on income	-217	-215
Income after taxes	585	797
Dividends/distributions	620	735

Silvretta-Center Leasing GmbH, Bregenz

in TEUR	31.12.2017	31.12.2016
Assets	8,207	5,687
Other assets	8,207	5,687
Liabilities	6,505	4,536
Financial liabilities	4,400	4,400
of which non-current	4,400	4,400
Other liabilities	2,105	136
Shareholders' equity	1,702	1,151

in TEUR	2017	2016
Net interest income	-56	-11
Other income	5,415	500
Other expenses	-4,552	-186
Earnings before taxes	610	239
Taxes on income	-59	-54
Income after taxes	552	185
Dividends/distributions	0	0

Below, Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H, VKL II Grundverwertungsgesellschaft m.b.H. and VKL III Gebäudeleasing-Gesellschaft m.b.H. are aggregated in the presentation of financial information, because all these companies pursue the same objective, and the shareholder structure and shareholdings in all these companies are identical. VKL IV Leasinggesellschaft mbH and VKL V Immobilien Leasinggesellschaft m.b.H. are also included in 2016 and are now fully consolidated due to an increased shareholding.

Vorarlberger Kommunalgebäudeleasing Gesellschaften

in TEUR	31.12.2017	31.12.2016
Assets	7,863	5,615
Financial assets	3,177	686
of which non-current	3,177	686
Other assets	4,686	4,929
Liabilities	2,960	140
Financial liabilities	2,957	136
of which current	2,957	136
Other liabilities	3	4
Shareholders' equity	4,903	5,475

in TEUR	2017	2016
Net interest income	5	10
Other income	16	374
Other expenses	-16	-20
Earnings before taxes	-15	328
Taxes on income	-6	-10
Income after taxes	-19	318
Dividends/distributions	448	357

(75) DISCLOSURES ON STRUCTURED AND NON-CONSOLIDATED ENTITIES

Hypo Vorarlberg is a member of Pfandbriefstelle der österreichischen Landes- und Hypothekenbanken. As joint issuing institution of the Landes- und Hypothekenbank, Pfandbriefstelle – and from 15 January 2015 its legal successor Pfandbriefbank (Österreich) AG – has the primary task of issuing mortgage bonds, public-sector mortgage bonds and non-funded bonds in trust and providing the funds thus procured to its members. Pfandbriefbank also carries out lending activities and transactions that affect the members collectively.

In addition to Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, the following institutions are members of Pfandbriefstelle

- HYPO-BANK BURGENLAND Aktiengesellschaft
- Austrian Anadi Bank AG
- HETA ASSET RESOLUTION AG
- Hypo NOE Landesbank für Niederösterreich und Wien AG
- Oberösterreichische Landesbank Aktiengesellschaft
- SALZBURGER LANDES-HYPOTHEKENBANK AKTIENGESELLSCHAFT
- Landes-Hypothekenbank Steiermark Aktiengesellschaft
- HYPO TIROL BANK AG

Pfandbriefbank is a bank pursuant to Section 3 (6) of the Austrian Banking Act (BWG) and can only conduct transactions in accordance with Section 1 (1) No. 9 BWG. Each member bank delegates a member of the Board of Directors of the share administration of Pfandbriefbank and therefore has one vote. The simple majority of votes cast is required for a valid decision. If votes are tied, the Chairman's vote decides. Decisions on the charter or any change to the charter, the liquidation of Pfandbriefbank and the distribution of the proceeds therefrom require a two-thirds majority of the votes cast.

Since 2004, Pfandbriefbank has been subject to the provisions of the Pfandbriefstelle Act (PfBrStG). According to Section 2 PfBrStG, the members have joint and several liability for the liabilities of Pfandbriefbank and, in conjunction with Section 92 (6) BWG, for the liabilities of Pfandbriefbank. The members' guarantors have joint and several liability for all liabilities of Pfandbriefbank that came into existence before 2 April 2003. For all liabilities incurred after 2 April 2003 and up to 1 April 2007, the guarantors only have joint and several liability if the agreed maturities do not exceed 30 September 2017. The guarantors are no longer liable for liabilities incurred after 1 April 2007. For the liabilities for which guarantors are no longer liable, other liability arrangements can be made between the member banks on a case-by-case basis. However, this only applies if they are disclosed in the issue conditions.

The volume of Pfandbriefbank issues for which the members and their guarantors have joint and several liability was TEUR 71,625 as of 31 December 2017 (2016: TEUR 1,929,509). TEUR 7,545 of this (2016: TEUR 304,010) is attributable to Hypo Vorarlberg. Some member banks are liable in the event of default on the basis of state law. This is different from the joint guarantee on the part of the member banks and guarantors for liabilities of Pfandbriefbank. If Pfandbriefbank does not meet its obligations to bondholders, the creditors of Pfandbriefbank can claim the amount due directly from the member banks and/or their creditors on the basis of the statutory joint guarantees. Subsequently, the member banks and/or creditors making the payment can make recourse claims against the other member banks, guarantors and/or Pfandbriefbank subject to certain conditions. Ultimately, all joint creditors making payments can claim recourse from the member bank whose issue is affected. According to the provisions of state law, this recourse claim can also be made against the relevant state as indemnitor.

Recognised liabilities to Pfandbriefbank

in TEUR	31.12.2017	31.12.2016
Liabilities evidenced by certificates	0	175,876
Financial liabilities – designated at fair value	7,545	128,134
Liabilities to Pfandbriefbank	**7,545**	**304,010**

Interest expenses from liabilities to Pfandbriefbank

in TEUR	2017	2016
Interest expenses for liabilities evidenced by certificates	-24	-40
Interest expenses for liabilities – designated at fair value	-1,860	-3,006
Interest expenses from liabilities to Pfandbriefbank	**-1,884**	**-3,046**

MANAGEMENT BOARD
DECLARATION

We confirm that to the best of our knowledge the consolidated financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report presents business events, business results and the Group's position so as to provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report outlines the principal risks and uncertainties to which the Group is exposed.

We confirm that to the best of our knowledge the parent company's financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the parent company's assets and liabilities, financial condition, and results of operation, and that the management report presents business events, business results and the parent company's position so as to provide a true and fair view of its assets and liabilities, financial condition, and results of operation, and that the management report outlines the principal risks and uncertainties to which the parent company is exposed.

Bregenz, 30 March 2018

Hypo Vorarlberg Bank AG

The members of the Managing Board

Michel Haller
Chairman of the Managing Board

Johannes Hefel
Member of the Managing Board

Wilfried Amann
Member of the Managing Board

REPORT OF THE
SUPERVISORY BOARD

On an ongoing basis, the Supervisory Board monitors the managerial activities of the Managing Board within the framework established by law, the articles of association and the Supervisory Board rules of procedure. The Supervisory Board convened for five meetings at which it discussed the Managing Board reports pertaining to important plans and relevant events, the position and development of the Bank, its subsidiaries and holdings. The Supervisory Board adopted the planning for financial years 2017 and 2018, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory and Managing Boards, and adopted the necessary resolutions. The Supervisory Board also addressed the matter of changing the name of the Bank to "Hypo Vorarlberg Bank AG".

Committees
The Audit and Risk Committee of the Supervisory Board held three meetings in 2017 to perform its extended control tasks to monitor the effectiveness of the internal control system, risk management system and Internal Audit. It dealt particularly intensively with financial reporting in the annual and quarterly financial statements. In addition, the committee conducted a review of the restructuring plan.

The Loan Committee of the Supervisory Board met eleven times in the 2017 reporting year. It examined the loans and credits that required its consent. Especially intense it has dealt with the financial reporting in the annual and quarterly financial statements.

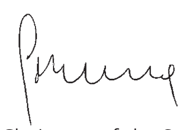
The Remuneration and Nominating Committee of the Supervisory Board met three times in 2017 and fulfilled its duties in accordance with Section 39b and Section 29 BWG. The Remuneration and Nominating Committee unanimously recommended to the Supervisory Board that it elect Eduard Fischer to the Supervisory Board of Hypo Vorarlberg Bank AG as the successor to departing Supervisory Board member Friedrich Amann.

Corporate Governance Code
The Supervisory Board reviewed and discussed with the Managing Board business events requiring Supervisory Board approval pursuant to laws, the articles of association and/or the rules of procedure, granting approval accordingly. The Supervisory Board employed the Corporate Governance Code as a guideline in its activities.

Audit
The 2017 financial statements and management report were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, appointed by the annual meeting of shareholders to audit the financial statements. As indicated by the unqualified audit opinion given by this company, the financial statements and management report conform to legal requirements. The consolidated financial statements for 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. They were also audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, and issued with an unqualified audit opinion. The Supervisory Board will formally adopt the relevant resolutions following detailed discussions.

Thanks and recognition
The Supervisory Board would like to express its thanks and recognition towards the members of the Managing Board, the managers and above all the employees for their excellent achievements in the financial year 2017.

Bregenz, March 2018



Chairman of the Supervisory Board
Jodok Simma

AUDITOR'S REPORT *)
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion
We have audited the consolidated financial statements of

Hypo Vorarlberg Bank AG, Bregenz,

and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2107, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the Notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2017 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRS) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB and Section 59a Austrian Banking Act BWG.

Basis for Opinion
We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following "EU regulation") and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the following, we describe the key audit matters from our perspective:

1. **Loan loss provisions and credit risk provisions for the lending business with customers**

2. **Valuation of securities, own issues and derivatives, that are categorized in the fair value level 3 of the fair value hierarchy**

3. **Purchase price allocation in connection with the acquisition of a majority share of HYPO EQUITY Unternehmensbeteiligungen AG**

1. LOAN LOSS PROVISIONS AND CREDIT RISK PROVISIONS FOR THE LENDING BUSINESS WITH CUSTOMERS

Description:
The company shows significant loan loss provisions (2017: MEUR 89.6 / 2016: MEUR 104.1) and provisions for credit risk (2017: MEUR 1.0 / 2016: MEUR 3.7) relating to the lending business with customers (Loans and advances to customers 2017: MEUR 9,330.5 / 2016: MEUR 9,050.0) in its consolidated financial statements as of 31 December 2017.

IFRS requires an entity to review the credit portfolio for loan loss provisions and the necessity for credit risk provisions.

The appropriateness of loan loss provisions and credit risk provisions is a significant area, where the Company´s Management Board makes discretionary decisions. The identification of impairment and the determination of the recoverable amount include uncertainty and, require, in addition to the identification of the loss event, assumptions to be made with regard to the economic situation of the customer, expectations of the future cash flows and the value of the collaterals. Using different assumptions and valuation methods might lead to different estimates of impairment or credit risk provisions; therefore we have selected this area as key audit matter.

In this regard, we refer to the disclosures provided by the Company´s Management Board in the Notes to the consolidated financial statements in the Notes (3) "Accounting Policies ", (17) "Loans and advances to customers (L&R) ", (37) "Provisions" and (64) "Credit Risk".

How we addressed the matter in the context of the audit:

We have assessed the design and effectiveness of the internal control system regarding individual and lump sum loan loss provision calculation, including the quality of the underlying data and systems. We reviewed and verified the credit approval and monitoring process and assessed the adequacy of the process. Hereto we inquired the responsible employees and assessed the internal guidelines to determine whether they were adequate from an auditor's point of view. Furthermore we have tested in individual cases the operating effectiveness of key internal controls implemented in these processes. On a sample basis we also examined the adequacy of the customer ratings.

For loan loss provisions and credit risk provisions calculated on an individual basis, we have examined on a sample basis the underlying assumptions for the impairment identification and quantification (in particular projections of future cash flows, valuation of collaterals and estimations of the recoverable amount in case of default). The samples were selected on a riskoriented basis, taking customer ratings into account.

For the audit of the lump sum loan loss provision we have reviewed the models used and the parameters applied to determine whether they are suitable for the determination of an appropriate provision.

In addition, we have assessed the appropriateness of the disclosures provided by the Company´s Management Board in the Notes on loan loss provisions and credit risk provisions.

2. VALUATION OF SECURITIES, OWN ISSUES AND DERIVATIVES, THAT ARE CATEGORIZED IN THE FAIR VALUE LEVEL 3 OF THE FAIR VALUE HIERARCHY

Description:
In its consolidated financial statements as of December, 31 2017, the Company to a significant extent records securities, own issues and derivatives, that are categorized in the fair value level 3 of the fair value hierarchy.

The valuation of these securities, own issues and derivatives requires the determination of the fair value using accepted valuation models and methods, as there are no current market or exchange prices available in an active market.

Applying accepted valuation models during the valuation, the selection of those valuation models and methods, the selection of the input parameters used as well as discretionary decisions associated with the selection of the input parameters, which are bearing an element of estimation uncertainty, are of decisive importance for the determination of the fair value.

In this regard, we refer to the information provided by the Company´s Management Board in the Notes to the consolidated financial statements in note (57) "Disclosures on fair value", where the fair value hierarchies and the sensitivity analysis are presented as well as to the disclosures of the Company´s Management Board in Note (3) "Accounting Policies", where the valuation models for inactive or nonexistent markets are described.

Due to the fact that securities, own issues and derivatives that are categorized as fair value level 3 of the fair value hierarchy make up a significant part of the Company´s balance sheet total and that estimation uncertainties may arise with regard to the valuationrelevant input parameters, we have identified this area as a key audit matter.

How we addressed the matter in the context of the audit:

We have examined the valuation process as well as the design and operating effectiveness of the Group´s significant controls with regard to the data input for the valuation of the securities, own issues and derivatives that are categorized as fair value level 3 of the fair value hierarchy. Within the measurement of these securities, own issues and derivatives we have assessed the appropriateness of the assumptions and methods used by the Group. We have assessed the valuation of the securities, own issues and derivatives and their carrying amount in accordance with the categorization according to IAS 39 on a sample basis.

In addition, we have assessed the appropriateness of the disclosures provided by the Company's Management Board in the Notes on the valuation of securities, own issues and derivatives that are categorized as fair value level 3 of the fair value hierarchy.

3. PURCHASE PRICE ALLOCATION IN CONNECTION WITH THE ACQUISITION OF A MAJORITY SHARE OF HYPO EQUITY UNTERNEHMENSBETEILIGUNGEN AG

Description:
In recent years, the Company's investment in HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz, was reported under the balance sheet item "Shares in companies valued at equity". In fiscal year 2017 (closing: August 14, 2017), shares in HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz, were acquired, so that full consolidation of this subsidiary is now required; in this regard, we refer to the disclosures provided by the Company's Management Board in Note (2) "Principles and scope of consolidation".

Therefore, the identifiable assets and liabilities acquired in the business combination described above had to be determined respectively measured in accordance with IFRS 3 "Business Combinations".

The valuations on which the purchase price allocation is based are subject to uncertainties with regard to both the future orientation of the underlying forecasts and the determination of the capitalization rate.

Based on these facts, we have identified this area as a key audit matter.

How we addressed the matter in the context of the audit:

We have requested and analysed all documents from the Management of the Company relating to the acquisition of shares in HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz.

In addition, we have reviewed the classifications and measurements of the identifiable assets acquired and liabilities assumed in the business combination described above to determine whether the classifications and measurements are in accordance with the provisions of IFRS 3 Business Combinations.

In addition, we have assessed the appropriateness of the information provided by the Company's Management Board in the Notes to the financial statements presenting and explaining the abovementioned business combination.

Responsibilities of Management Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB and Section 59a Austrian Banking Act BWG for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our 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 Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Comments on the Management Report for the Group
Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles and banking regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion
In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement
Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Additional information in accordance with article 10 EU regulation
We were elected as auditor by the extraordinary general meeting at June 1, 2016. We were appointed by the Supervisory Board on July 19, 2016. We are auditors without cease since 2010.

We confirm that the audit opinion in the section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

Responsible Austrian Certified Public Accountant

The engagement partner is Mr. Friedrich O. Hief, Certified Public Accountant.

Vienna, March 30, 2018

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber mp
Wirtschaftsprüfer /
Certified Public Accountant

Mag. Friedrich O. Hief mp
Wirtschaftsprüfer /
Certified Public Accountant

*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

ACHIEVING GREAT THINGS TOGETHER.

BRANCHES AND CONTACT

We have a key principle. That our customers can always rely on us. That we are there when we are needed. And that they can talk to us about everything. Because that is the basis for a long-term and successful business relationship.

BRANCH OFFICES
AND SUBSIDIARIES

HEADQUARTERS

Bregenz, Zentrale
Hypo-Passage 1

Bregenz Corporate Customers Branch Office
Stephan Sausgruber
Branch Office Head,
Bregenz Coporate Customers
Head of Key Account Management

Markus Schmid
Head of Corporate Customers Centre
Germany

Bregenz Private Customers
Branch Office
Christian Brun
Branch Office Head, Bregenz Private Customers

Stephan Bohle
Head of Private Banking

Wealth Management Bregenz Branch Office
Stefan Schmitt
Head of Wealth Management Bregenz

INTERNAL DEPARTMENTS

Johann Berchtold
Head of IT, Organisation and Payment
Transactions

David Blum
Head of Strategic Bank Management

Klaus Diem
Head of Legal Department

Bernhard Egger
Head of Bookkeeping and Registration

Nora Frischherz
Head of Accounting

Stefan Germann
Head of Credit Management
Corporate Customers

Florian Gorbach
Head of Treasury

Martin Heinzle
Head of Credit Management
Private Customers

Egon Helbok
Head of Human Resources

Peter Holzer
Head of Controlling

Martha Huster
Ombudsperson

Reinhard Kaindl
Head of Compliance

German Kohler
Head of Corporate and Internal Audit

Tanja Libiseller
Head of Digitization

Sabine Nigsch
Head of Communication

Markus Felder
Head of Private Customers

Wilhelm Oberhauser
Head of Logistics, Sustainability

Angelika Rimmele
Head of Marketing

Karl-Heinz Rossmann
Head of Corporate Customers

Roland Rupprechter
Head of Asset Management

Emmerich Schneider
Head of Participation Administration

Markus Seeger
Head of Group Risk Controlling

Johannes Tschanhenz
Head of Mid- and Backoffice Fonds,
Securities and Derivatives

BRANCH OFFICES

Bludenz, Am Postplatz 2
Christian Vonach, Branch Office Head
and Head of Corporate Customers
Walter Hartmann, Branch Office
Head Private Customers
Christoph Gebhard,
Head of Private Banking

Dornbirn, Rathausplatz 6
Richard Karlinger, Branch Office Head
and Head of Corporate Customers
Egon Gunz, Branch Office Head Private
Customers and Head of Private Banking

Dornbirn, Messepark, Messestraße 2
Stephan Spies, Branch Office Manager

Egg, Wälderpark, HNr. 940
Stefan Ritter, Branch Office Manager

Feldkirch, Neustadt 23
Martin Schieder, Branch Office Manager

Feldkirch, LKH Feldkirch
Carinagasse 47–49
Stefan Kreiner, Branch Office Manager

Götzis, Hauptstraße 4
Franz Altstätter, Branch Office Manager

Graz, Joanneumring 7
Horst Lang, Regional Manager Styria
and Head of Corporate Customers
Gerhard Vollmann, Head of Private
Banking

Hard, Landstraße 9
Manfred Wolff, Branch Office Manager

Höchst, Hauptstraße 25
Erich Fitz, Branch Office Manager

Hohenems, Bahnhofstraße 19
Andreas Fend, Branch Office Head

Lauterach, Hofsteigstraße 2a
Karl-Heinz Ritter, Branch Office Manager

Lech, Dorf 138
Reinhard Zangerl, Branch Office Head
and Head of Corporate Customers

Lustenau, Kaiser-Franz-Josef-Straße 4a
Graham Fitz, Branch Office Head and
Head of Corporate Customers
Helgar Helbok, Branch Office
Manager Private Customers
Jürgen Rehmann, Head of Private Banking

Rankweil, Ringstraße 11
Günther Abbrederis, Branch Office Manager

Riezlern, Walserstraße 31
Artur Klauser, Branch Office Head
Kleinwalsertal and Head of Private Banking
Josef Wirth, Head of Service and
Private Customers

Schruns, Jakob-Stemer-Weg 2
Hannes Bodenlenz, Branch Office Manager

Wels, Kaiser-Josef-Platz 49
Friedrich Hörtenhuber,
Regional Manager Upper Austria and
Head of Corporate Customers
Iris Häuserer, Branch Office Manager
Private Customers and Head of
Private Banking

Vienna, Brandstätte 6
Roswitha Klein, Regional Manager Vienna
Beatrice Schobesberger,
Head of Wealth Management
Katharina Jantschgi,
Head of Service and Private Customers
Lothar Mayer, Head of Financing

Mobile Sales Unit, Austria
Lothar Mayer

REGIONAL HEAD OFFICE

St. Gallen, Switzerland, Bankgasse 1
Dieter Wildauer, Regional Manager Switzerland
Thomas Reich, Head of Back Office

SUBSIDIARIES IN AUSTRIA

Hypo Immobilien & Leasing GmbH
Dornbirn, Poststraße 11
Wolfgang Bösch, Managing Director
Peter Scholz, Managing Director

Hypo Informatikgesellschaft m.b.H.
Bregenz, St.-Anna-Straße 1
Johann Berchtold, Managing Director
Egon Helbok, Managing Director

Hypo Versicherungsmakler GmbH
Dornbirn, Poststraße 11
Harald Dür, Managing Director and
Management Spokesman
Christoph Brunner, Managing Director

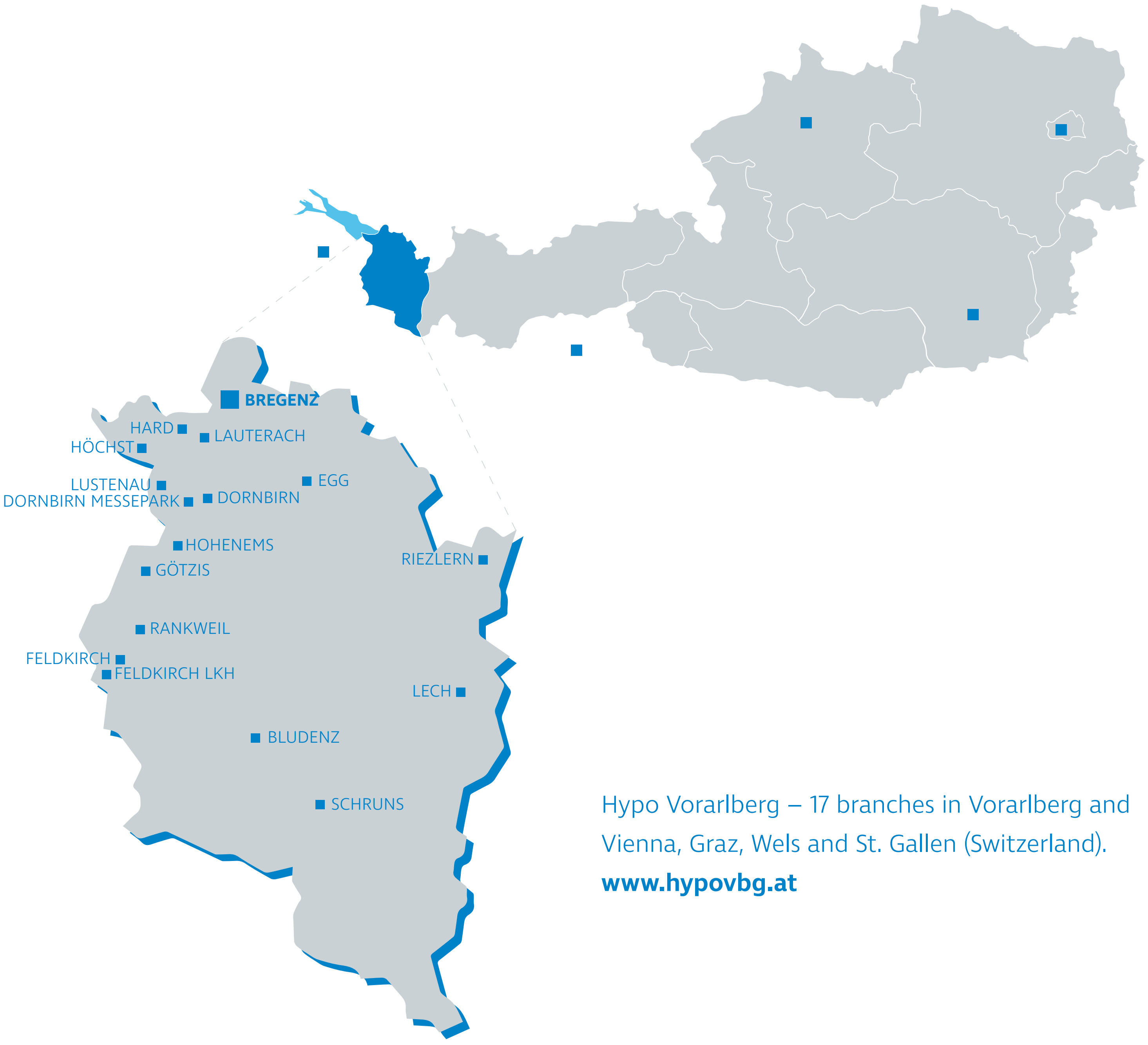
SUBSIDIARIES IN ITALY

Hypo Vorarlberg Leasing AG
Bolzano, Galileo-Galilei-Straße 10 H
Como, Via F.lli Rosselli 14
Treviso, Vicolo Paolo Veronese 6
Michael Meyer, Delegate of the Board
of Directors

Hypo Vorarlberg Immo Italia GmbH
Bolzano, Galileo-Galilei-Straße 10 H
Alexander Ploner, Delegate of the Board
of Directors

ALWAYS CLOSE BY
LOCATIONS AND BRANCHES

In addition to our branches in Vorarlberg, we also have locations in the most important economic centres in Austria and in Eastern Switzerland. This way we can take care of our customers outside of Vorarlberg and, at the same time, personally convince others of the quality of our performance.



Hypo Vorarlberg – 17 branches in Vorarlberg and Vienna, Graz, Wels and St. Gallen (Switzerland).
www.hypovbg.at

IMPRINT
Publisher and source: Hypo Vorarlberg Bank AG
Hypo-Passage 1, 6900 Bregenz, Austria, T +43 50 414-0
info@hypovbg.at, www.hypovbg.at
This annual report is also available as PDF: www.hypovbg.at
BLZ 58000, BIC / SWIFT HYPVAT2B, DVR 0018775,
UID ATU 36738508, FN 145586y
Edited by:
Hypo Vorarlberg Bank AG, Bregenz / Austria
Designed by: go biq communication gmbh, Dornbirn
Print: Vorarlberger Verlagsanstalt GmbH, Dornbirn / Austria
Photographs: Marcel Mayer, Manfred Oberhauser and Alexander Sturm

KLIMA NEUTRALITÄTS BÜNDNIS 2025 DRUCK NEUTRAL

This Annual Report has been printed climate-neutral.

Global Investment Performance Standards (GIPS®) on page 33: The centralised portfolio management of Hypo Vorarlberg Bank AG having registered offices in Bregenz qualifies as a firm within the meaning of the Global Investment Performance Standards (GIPS®). The firm comprises all asset management mandates of private and institutional customers that are managed in the context of the bank's centralised investment process. It does not include decentralised organisational units and other units of the group that operate independently. The firm is in compliance with the GIPS®. For a list of all composites along with a detailed description, please contact Hypo Vorarlberg Bank AG at: T +43 (0) 50 414-0 or email us at info@hypovbg.at

For more information on GIPS® please contact us at gips@hypovbg.at

Ambition unites people
with purpose with
Hypo Vorarlberg.

www.hypovbg.at